STATE OF CALIFORNIA

BIENNIAL REPORT

of the

JOINT LEGISLATIVE AUDIT COMMITTEE

1967–1968

William H. Merrifield, *Auditor General*

Lindsay W. Miller, *Committee Consultant*

MEMBERS OF THE COMMITTEE

ASSEMBLYMEN	SENATORS
Mike Cullen	William E. Coombs
Ray E. Johnson	George E. Danielson
Vincent Thomas, *Chairman*	Richard J. Dolwig, *Vice Chairman*

During the calendar years 1967 and 1968, the following members of the State Legislature were appointed to the Joint Legislative Audit Committee:

ASSEMBLYMEN

WILLIE L. BROWN, JR.
(Served from 12/28/65 to 9/7/67)

MIKE CULLEN
(Served from 9/7/67 to present)

RAY E. JOHNSON
(Served entire period)

VINCENT THOMAS, *Chairman*
(Served entire period)

SENATORS

WILLIAM E. COOMBS
(Served entire period)

GEORGE E. DANIELSON
(Served entire period)

RICHARD J. DOLWIG, *Chairman*
(Served entire period)

TABLE OF CONTENTS

JOINT LEGISLATIVE AUDIT COMMITTEE
CALIFORNIA LEGISLATURE
November 1, 1969

The Honorable President of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate, and
The Assembly of the Legislature of California

Sirs:

We transmit herewith our report covering the activities of your Joint Legislative Audit Committee for the calendar years 1967 and 1968. In this report we summarize the work of the Committee and the Office of the Auditor General, and our program of independent post-audits of the executive branch of state government.

During the two-year period covered by this Biennial Report your Joint Committee issued a total of 125 reports of all kinds, containing 380 recommendations for improvements in accounting and related procedures. Of these current recommendations, a total of 89% have been accepted and implemented by the state agencies concerned, and we are awaiting several responses which will probably increase this favorable percentage.

Our state government is composed of almost 200 separate departments, agencies, and offices. Each of these has been audited on at least one occasion during the lifespan of this Committee. The high degree of acceptance and implementation of our recommendations indicates the responsibility of your Committee, and the outstanding performance and technical competence of the Auditor General and his staff.

The nature of our assignment makes it most difficult to estimate the total savings in manhours, administrative delays, and actual cash expenditures our recommendations have achieved. However, we have compiled a breakdown of estimated savings, and this is included in the Introductory Chapter. We believe you will agree that we

have returned to the people of the state, many times over, the operating costs of your Committee and the Office of the Auditor General.

Respectfully submitted,

MIKE CULLEN	GEORGE E. DANIELSON
RAY E. JOHNSON	WILLIAM E. COOMBS
VINCENT THOMAS *Chairman*	RICHARD J. DOLWIG *Vice Chairman*

' COMMITTEE

tate, many times over,
ttee and the Office of

:GE E. DANIELSON

JIAM E. COOMBS

:ARD J. DOLWIG
ce Chairman

INTRODUCTION

During the two year period, 1967–68, covered by this Biennial Report the Joint Legislative Audit Committee issued a total of 125 reports of all kinds, containing 380 recommendations for improvements in accounting and related procedures.

Of these current recommendations, a total of 89% have been accepted and implemented by the state agencies concerned, and we are awaiting several responses which will probably increase this favorable percentage.

Your Joint Committee takes pride in the successful efforts of the Committee and the Office of the Auditor General to upgrade and improve state fiscal procedures.

We have received excellent cooperation from almost all echelons of the state government in our assigned task, and we take this opportunity to thank the state personnel at all levels who have assisted us in making the record of accomplishment possible.

Your Joint Committee highly commends the Auditor General and his dedicated staff for their valuable service over the past two years. In our opinion, the office of the Auditor General consists of the most qualified group of governmental auditors anywhere in the nation, and the Legislature is receiving daily benefit from their work and performance.

The Office of the Auditor General has established a reputation across the country which brings considerable credit to the California State Legislature. Members may be interested to know that in the past two years one employee of the Auditor General's Office has been selected as the Legislative Auditor for the State of Nevada, and another employee has been selected as the Legislative Auditor for the State of Montana.

In addition, over the past ten years the Office of the Auditor General has served as a training ground for many governmental auditors from foreign countries. Under programs instituted by the Agency for International Development the Auditor General's Office has

provided on-the-job training for auditors from Thailand, Burma, Iraq, Jordan, Jamaica, and Panama.

It is clear that California is one of the leaders in the field of legislative postauditing, and we have become the model for others to follow.

In our last Biennial Report for the years 1965–66, we reported that we had received a total of 26 requests for information from members and committees of the State Legislature.

During the period covered by this present Biennial Report we are pleased to note that the number of such requests has increased to 49. These include requests from almost every major committee of the Legislature, and we wish to point out that in conjunction with our regular audit program the services of the Joint Committee are always at the disposal of members and fellow committees of the Legislature.

In our last Biennial Report we discussed at some length the concept of Program Budgeting and Program Accounting. We have been pleased to note that the State Department of Finance has been actively studying the possibility of converting the State Budget to a Program format, and for the first time in California the 1969–70 State Budget will contain a Program Budget supplement to the traditional line-item budget.

We plan to follow the progress of this development closely, and to provide all the assistance possible to the administrative branch of government in achieving the benefits of program budgeting and program accounting.

Also, in the last Biennial Report we discussed the concept of the Performance Postaudit, and we can report that the Auditor General has made important strides in developing this technique for the legislative branch of government.

Chapter One of the present Report summarizes a pilot program of performance postauditing which was conducted in the California Highway Patrol, and we recommend this Chapter to individuals interested in the concept.

The State Division of Highways and accounting problems within the Division were given considerable space in the last Biennial Report. We made a total of 29 recommendations for changes in accounting and related procedures.

The firm of
the Division of
tions and to sug
October 10, 196
the Division:

- Adopt the
eral's repo
- Make a st
procedures
up to date
- Strengthen
- Take actio
- Revise the
and proced

The Price W
months will be
mendations.

While most
by employees
request for pr
study of the ge
has been issued.
000, and all w
tem is to be co

The end prod
general accoun
generally acce
and which pro
cordance with
general account

Effective Ja
ing department
with other adm
newly created
Department of

While this ch
mendations, it
being given to
tivities.

Independentl
consultant, per

The firm of Price Waterhouse & Co. was engaged by the Division of Highways to evaluate our recommendations and to suggest a course of action. In a report dated October 10, 1968 Price Waterhouse & Co. suggested that the Division:

- Adopt the recommendations in the Auditor General's report
- Make a study of general accounting records and procedures in order to streamline and bring them up to date
- Strengthen top levels of accounting management
- Take action to deal with problems of record storage
- Revise the internal audit organization, programs, and procedures

The Price Waterhouse study estimates that 178 man-months will be required to fully implement all recommendations.

While most implementation work will be performed by employees of the Department of Public Works, a request for proposals from consultants to perform a study of the general accounting records and procedures has been issued. The estimated cost of this study is $100,000, and all work with full implementation of the system is to be completed by the summer of 1970.

The end product of the study is to be (1) an operating general accounting system which is in accordance with generally accepted governmental accounting principles and which produces timely financial information in accordance with such principles, and (2) an up-to-date general accounting manual.

Effective January 15, 1969 the headquarters accounting department of the Division of Highways, together with other administrative units, were transferred to the newly created Division of Administrative Services in the Department of Public Works.

While this change is not directly related to our recommendations, it does indicate that greater importance is being given to accounting and related administrative activities.

Independently of the proposed study by a private consultant, personnel of the Division of Administrative

Services are continuing to study our recommendations. Financial statements for the year ended June 30, 1968 will be in the format suggested and set forth in the appendix of our report for the year ended June 30, 1966.

Our recommendations regarding inventories are to be incorporated into new supply procedures, and a study of our recommendations regarding fixed assets is nearing completion.

Several years ago, the Auditor General advised the Joint Committee that some federal reimbursements for design costs incurred before July 1, 1964 on the interstate highway system were not being recovered due to the fact the accounting system did not adequately identify these costs.

Although accounting personnel agreed with the Auditor General's findings, it was recognized that recovery of these costs would require considerable time with project records back to 1956 being analyzed.

This work has been completed in highway district 2 (Redding), and we have been advised that an additional federal reimbursement of approximately $300,000 is in process of recovery.

Similar work is also in process in other highway district offices. If the recovery in other districts is proportionately the same, the potential recovery of these design costs could approximate $3 to $4 million.

The current billing system for claiming federal reimbursements has been in operation since July 1, 1967. Although this system enables more rapid receipt of federal progress payments, it does not improve the ability to recover maximum federal aid. As a result, the Auditor General is in process of reviewing all federal aid procedures and examining specific reimbursements.

To assist members of the Legislature in understanding the value of the work performed by the Auditor General's Office, we have compiled a breakdown of the estimated savings and benefits resulting from the efforts of the Auditor General's Office and your Joint Committee.

In some cases we have been unable to specify the cash saving involved, and we have designated these cases as undetermined amounts. However, we believe that Members will readily agree that the work performed by the Office of the Auditor General has repaid to the people of California many times over the cost of operation of your committee and the Auditor General's Office.

EDUCATION

Recovery of surplus in County School
Adjustment of ADA errors and overpa
districts________________________
Department of Education computatior
Fund_________________________
Improvements in administration and
Teachers' Retirement System______

FISCAL AFFAIRS

State Controller—
Payroll exceptions under Section 20
Finance—
Disclosure of accumulation of $4
fund surplus used to expand printi
legislative approval______________

HEALTH AND WELFARE

Reversion of special fund and federal
to General Fund________________
Transfer of social welfare audit from
to Social Welfare to gain federal re

MILITARY AFFAIRS

Elimination of non-contributory retir
full-time National Guard employee
Interest benefits on progress billings
struction funds_________________

RESOURCES

Long Beach Tideland oil revenues—
ing to increase in State's share fro
Water Resources:
Correction of wholly inadequate
dures________________________
Disclosure of $300,000 excessive p
malito Power Canal Change Orc

	Estimated Savings and Benefits
EDUCATION	
Recovery of surplus in County School Service funds	$10,500,000
Adjustment of ADA errors and overpayments to school districts	$2,000,000
Department of Education computation errors in School Fund	$270,000
Improvements in administration and accounting for Teachers' Retirement System	[a]
FISCAL AFFAIRS	
State Controller—	
Payroll exceptions under Section 20 of budget act	$400,000
Finance—	
Disclosure of accumulation of $4 million printing fund surplus used to expand printing plant without legislative approval	[a]
HEALTH AND WELFARE	
Reversion of special fund and federal reimbursements to General Fund	$5,500,000
Transfer of social welfare audit from State Controller to Social Welfare to gain federal reimbursement	[b]$40,000
MILITARY AFFAIRS	
Elimination of non-contributory retirement system for full-time National Guard employees	[b]$40,000
Interest benefits on progress billings for Armory construction funds	[b]$50,000
RESOURCES	
Long Beach Tideland oil revenues information leading to increase in State's share from 50% to 85%	[a]
Water Resources:	
Correction of wholly inadequate accounting procedures	[a]
Disclosure of $300,000 excessive payments on Thermalito Power Canal Change Order	[a]

TRANSPORTATION

Highway Patrol—	
Reduction in costs, improvement in measurement of performance, internal controls, internal auditing, and systems and procedures	[b]$225,000
Division of Highways:	
Cut overhead and profit on cost-plus contracts	[b]$1,000,000
Prompt recovery of federal reimbursements—interest savings on reduced receivable	$1,500,000
Recovery of advance design costs on old federal jobs	$3 to 4 million
Reimbursement of audit costs by federal government	[b]$75,000
Recommend faster sale of excess lands ($50 million) and return to tax rolls	[a]
Disclosed inadequate accounting of Highway Fund (55 recommendations)—CPA to implement changes	[a]
Recommend consolidation of transportation funds: Speed up use of $224 million in fund pipeline, including $36 million for cities and counties	[a]

[a] Undetermined amount.
[b] Annual savings.

CHAPTER ONE

CALIFORNIA HIGHWAY PATROL

PERFORMANCE POSTAUDIT PILOT PROGRAM

In the Biennial Report of the Joint Legislative Audit Committee for the period 1965–1966 the concept of the performance postaudit was discussed in considerable detail. Following the publication of that Biennial Report much favorable comment was received by members and staff of the Joint Committee, and it was decided that a pilot program for a performance postaudit would be instituted within a selected agency or department of the state government.

By definition, a performance postaudit is an independent examination, conducted by the Auditor General, for the purpose of providing the State Legislature with an evaluation and report of the manner in which administrators of agencies and departments of the state have discharged their responsibilities to faithfully, efficiently, and effectively administer programs of the state.

After a complete evaluation of all major departments of state government the Joint Committee selected the Department of the California Highway Patrol for the performance postaudit pilot program, and the Auditor General was directed to make a survey of the Patrol's operations. The purpose of the survey was to:

a. Provide the Legislature with information on CHP operations

b. Assist CHP to develop better practices and procedures, and

c. Identify opportunities for savings

To attain these objectives, the Office of the Auditor General reviewed and analyzed the practices and procedures of the Patrol, and made a total of 48 recommendations for improvements. For purposes of this survey, the technical enforcement and inspection activities of the CHP were not considered within the scope of the Auditor General's work.

To assist the staff of the Auditor General with this pilot program, and to facilitate training in the techniques of performance postaudit work the national accounting firm of Lybrand, Ross Bros. and Montgomery was re-

tained. Staff members of this company worked in conjunction with the staff of the Auditor General for the duration of the pilot program.

The survey was not carried out to the same depth in all organizational units of the CHP. A preliminary review was made of each unit, and practices, procedures, or activities were evaluated to determine the potential for improvement. If the preliminary review disclosed no opportunities for improvement in a unit, further inquiry was discontinued.

The preliminary review did find opportunities for improvement in the following organizational units:

- Administrative Services Division
- Operational Planning and Analysis Division
- Field offices
- Internal audit unit, Office of Inspection

Due to the recent introduction of program budgeting in state government, particular emphasis was placed on CHP's objectives and the programs developed to achieve those objectives. This included a review of program definitions and performance measurements.

A number of survey findings indicate the need for further detailed study of systems and procedures. The time allocated for the survey did not permit such a detailed study, and this has been pointed out in the full survey report.

HISTORY AND ORGANIZATION OF THE CALIFORNIA HIGHWAY PATROL

The California Highway Patrol was created in 1929. For the first time in California, uniform interpretation and enforcement of motor vehicle laws was attained. Traffic officers serving under contracts between the state and counties were brought together, and from that time forward were paid out of motor vehicle revenues.

In 1947 the Patrol was separated from the Department of Motor Vehicles, and established as the Department of the California Highway Patrol. It is now one of the three Departments within the State Transportation Agency.

The Commissioner of the California Highway Patrol is a civil executive officer appointed by the Governor with the advice and the consent of the State Senate. A deputy commissioner carries out duties related to traffic law enforcement, and a chief of staff carries out duties related to administrative affairs.

Reporting and directly accountable to the Commissioner is an Executive Office. This staff unit includes:

- Executive Assistant
  a. Information and Education Office
  b. Safety Program Standards Office
- Special Representative
- Office of Inspection
  a. Auditor

The Office of Inspection was created on July 1, 1968, and the internal audit unit was transferred from the Administrative Services Division. This Office is responsible for:

1. Personnel and other investigations
2. Review and evaluation of punitive actions
3. Processing of applicant investigations
4. Review and processing of personnel complaints
5. Internal audit
6. Special studies as assigned

The Patrol is divided into two main organizational responsibility areas. These are:

a. Field operations, directed by the deputy commissioner
b. Administrative affairs, directed by the chief of staff

Six zone offices direct field operations. Their locations and zone numbers are:

I Redding
II Sacramento
III San Francisco
IV Fresno
V Los Angeles
VI San Diego

Each zone office is responsible for area offices located within its zone or territory. Area offices range in number

from nine in Zone I (Redding) to 13 in Zone II (Sacramento). There are 64 area offices throughout the state. Additionally, 22 substations and 7 scale or inspection facility locations are attached to area offices.

Four organizational Divisions provide administrative support to the California Highway Patrol. These Divisions are:

a. Operational Planning and Analysis
b. Administrative Services
c. Safety Services
d. Training

Each Division is further subdivided into functional units.

Increase in uniformed strength

Increases in the uniformed strength of the CHP have occurred in each of the past five years. However, the most significant increase resulted from the passage of Senate Bill 317 (Chapter 2031) in 1965.

These amendments to Sections 9250 and 9253 of the Vehicle Code increased motor vehicle registration fees by one dollar in each of the years 1966, 1967, and 1968. The additional revenue was to be used for doubling the size of the California Highway Patrol.

The CHP had little or no advance notice of the Legislature's intention to double uniformed strength. Consequently, plans were not formulated to recruit, train, and absorb this large increase in strength by December 31, 1968, the date set by Chapter 2031.

A problem arose in determining the base force to be doubled due to new positions included in the Budget Act of 1965. The Act authorized 500 new traffic officers for the Operation 500 study (discussed later in this chapter), and 51 new traffic officers for the increased workload on urban freeways.

Whether the base force to be doubled includes or excludes these 551 traffic officers has not been resolved, and although the Patrol has increased its uniformed strength significantly since the passage of Chapter 2031 the strength was not doubled by December 31, 1968.

The table on the next page shows the actual and estimated growth of the CHP from 1965 through December 31, 1968.

CHP POSITIONS AND GROWTH

	Traffic officers			Supervising officers			Total		
	Authorized	Filled	Vacant	Authorized	Filled	Vacant	Authorized	Filled	Vacant
June 30, 1965	2,566	2,525	41	455	407	48	3,021	2,932	89
June 30, 1966	3,117	3,086	31	455	453	2	3,572	3,539	33
June 30, 1967	4,125	3,840	285	540	536	4	4,665	4,376	289
June 30, 1968	4,575	4,340	235	661	598	63	5,236	4,938	298
June 30, 1969	5,025	--	--	711	--	--	5,736	--	--
October 31, 1968	--	4,458	567	--	659	52	--	5,117	619
December 31, 1968, estimated	--	4,570	455	--	--	--	--	--	--

Note:

1. The 551 new traffic officers referred to in the text are excluded from the authorized number of 2,566 traffic officers shown on June 30, 1965, but are included in the authorized number of 3,117 on June 30, 1966.
2. A doubling of the base force of 2,566 traffic officers requires a force of 5,132 by December 31, 1968. CHP estimates there will be 455 vacancies.

OBJECTIVES AND PROGRAMS

The responsibility of the California Highway Patrol is to ensure the safe, lawful, rapid, and economical use of the highway system. To accomplish this mission CHP has established the following specific objectives:

1. Encourage the most economic use of the state highway system by supervising traffic flow, and to prevent or alleviate congestion and the resulting economic loss by removing impediments to traffic flow.
2. Increase highway safety by improving vehicle driver behavior and attitudes, encouraging compliance with the provisions of the Vehicle Code, and assisting other law enforcement agencies in the preservation of law and order.
3. Protect the public's investment in the highway system and the users of the highways by control and inspection of commercial vehicles.
4. Promote safety by disseminating vehicle operation and engineering safety information, encourage good vehicle maintenance practices by vehicle inspection, and assisting the public during periods of disaster.
5. Protect the public and the state's highways by developing regulations governing vehicles used on the highways and standards of mechanical and equipment safety.

The Programming and Budgeting System, also known as program budgeting, has been recently introduced into state government and is designed to improve the use of resources. The system is predicated on better budgetary planning, and each department is required to:

- Set up its objectives
- Define programs to fulfill these objectives
- Classify proposed expenditures by program
- Project expenditures for several years ahead
- Develop and use quantitative data to measure the results yielded by each program

To meet these requirements, and to achieve the objectives outlined above, the CHP has set up five programs. The proposed 1969–70 budget for the programs is as follows:

Program	Positions	Percent	Amount	Percent
1. Traffic supervision and services on the state highway system	5,075	61	$75,814,123	65
2. Selective deployment on the county road system	1,014	12	15,006,770	13
3. Regulation and inspection	1,155	14	12,778,877	11
4. Records	198	2	2,441,809	2
5. Administrative support	904	11	10,871,404	9
Total	8,346	100	$116,912,983	100

In the opinion of the Auditor General's staff the first two programs should be redefined. The first and also the second statement of the Patrol's objectives are contained in both programs.

In addition, other matters were found which require attention before CHP's planning and budgeting system can operate effectively. These are:

- CHP's present accounting system does not provide the information needed for effective planning and budgeting.
- Inspectors and commanders of CHP zone and area offices are not adequately informed about the five programs referred to above.

Two of the departmental requirements already discussed for the Programming and Budgeting System are the need to:

- Set up objectives
- Define programs to fulfill these objectives

Generally, objectives are established by statute, and prior to the adoption of program budgeting there was no need to define programs. However, they are now of critical importance.

Programs represent organized activity to achieve objectives, and program definitions are developed by identi-

fying the specific objective served by each activity. Activities may change or be modified; these are management decisions. Similarly, programs and objectives are not static or fixed, and may change from time to time.

However, a program should not group together activities designed to accomplish more than one objective. Such a practice indicates the need to redefine programs, or the need to be more specific in identifying and describing activities.

For example, a traffic officer's duties during his shift of work will encompass many combined activities that serve to fulfill more than one objective. He may:

1. Be in view in a moving patrol car
2. Issue citations for traffic violations
3. Investigate accidents
4. Assist drivers of disabled vehicles
5. Appear in court

Activities one through four serve to accomplish two of CHP's objectives, as follows:

- Activities 1. and 2. increase highway safety
- Activities 3. and 4. encourage economic use of the highway

Activity 5. (appear in court) may serve either objective depending on the reason for court appearance. Consequently, it would not suffice to have a single activity for court appearances. A more specific description is needed.

As discussed earlier, the first two programs defined by CHP are:

1. Traffic supervision and services on the state highway system
2. Selective deployment on the county road system

These two programs represent 78 percent of the proposed 1969–70 budget, and they include 73 percent of the budgeted positions.

The principal distinction between the two programs as now defined is highway classification, or the location where services are performed. Neither CHP's statement of objectives nor the Vehicle Code indicates any differ-

ence in CHP responsibility or authority with respect to these road systems.

Since the Patrol's statement of objectives implies no difference in responsibility for the two road systems, it should not be the designated reason for the distinction between the first two programs.

Plans are being made to change the CHP accounting system so that it will accumulate costs in line with the recently introduced program budgeting concept. However, the changes will not provide adequate cost information for CHP management. Only man-hours will be classified by program, and all other costs will be prorated between several programs.

The plans should be changed to provide better cost information by program, program elements, or subdivisions of programs. This will enable CHP management to:

- Compare planned cost with actual cost for each program and program element
- Compare benefits resulting from each program or program element with costs incurred
- Develop information for the Legislature so it can evaluate the reasonableness of costs incurred to provide services

Administrative personnel at CHP headquarters developed the concepts for CHP's program budgeting. Also, they have developed new field operations reports to become effective January 1, 1969. These reports will show man-hours spent on each program, but will not show budgeted man-hours applicable to each area office.

At the time the Auditor General's staff visited CHP zone and area offices, Inspectors and Commanders did not know how they would use program budgeting in the field.

Most decisions regarding manpower deployment are made in the field, and these decisions often cause manpower to be shifted from one program to another. Inspectors and Commanders should be instructed in program budgeting as soon as possible. If this is not done, management at CHP headquarters will not be able to control program budgeting effectively.

PERFORMANCE MEASUREMENTS

In the preceding section we listed the requirements for program budgeting. One of these is to develop and use quantitative data to measure the results achieved by each program.

With few exceptions, CHP's program budget does not set forth such quantitative data, and we identify this type of data as program output measurements or performance measurements.

CHP program number 3. (Regulation and Inspection) contains 16 program elements, and some output measures are implied. However, most of these do not measure performance, but serve as indicators of program size or volume. A true measurement of performance is preferred, but this is not possible for some licensing and inspection activities.

Performance measurements are essential whenever possible. They provide the means to evaluate results achieved by each program, and the basis to analyze costs and benefits.

Similarly, performance standards are also necessary. They provide the yardstick against which progress in achieving objectives is measured. In addition, they establish the expected accomplishments or results for each program.

Due to the fact that performance measurements are not now used, it is impossible to determine:

- How CHP's existing uniformed strength can best be used, and
- What CHP's optimum strength should be

As reliable measurements of program results are identified and developed, CHP should begin to use them to answer questions on manpower utilization and other related problems. This can be done with models simulating performance under various conditions, and will provide information upon which to base better decisions.

To meet requirements for program budgeting the following recommendations are presented:

1. Develop performance measurements and performance standards for each program

2. Provide the Transportation Agency with capability to supervise, coordinate, and control all budgets within the agency

3. Intensify analysis of data gathered in the Operation 500 study

4. Begin development of models

CHP has conducted two studies to determine the influence manpower increases have on traffic accidents. One study, Operation 101, was conducted in 1964. For this study, a 35 mile section of Highway 101 near Oceanside was selected for intensive traffic enforcement, and traffic officers were increased in number from 18 to 36. When compared with the experience of the preceding three years, the study showed a decrease in the rate of personal injury accidents.

Due to the positive results of Operation 101, a second study, Operation 500, was instituted in January 1966 and completed in March 1968.

For this study, 500 additional traffic officers were assigned to six areas with high accident frequencies. Purpose of the study was to obtain additional information on the correlation between intensified patrol efforts and the accident rate.

These studies have pointed out the difficulty in analyzing and measuring results of enforcement activities designed to reduce accidents. Some factors are difficult to identify, and others may not be influenced by enforcement activities. Examples of factors involved are:

- Weather
- Highway congestion
- Road construction
- Speed
- Driver inattention

There is a critical need to evaluate all the factors involved in accidents. Further, there is need to know which contributing factors can be diminished or eliminated by increased enforcement activities.

The Patrol is continuing to analyze the results of the two studies mentioned above. Considerable work remains

to be done before conclusive statements can be made on the subject.

One purpose of the Programming and Budgeting System is to bring together all costs incurred in achieving an objective so that decisions can be made in the allocation of resources.

In most cases, such decisions do not involve more than one department or organizational unit. However, in part the objectives of the California Highway Patrol coincide with objectives of the State Division of Highways. Both these organizations are units within the Transportation Agency.

The objectives of the CHP to increase highway safety and encourage economic use of highways are also prime objectives of the Division of Highways.

The CHP and the Division both contribute to achieving these major objectives. Consequently, analyses should be made to identify their respective contributions. Their separate performance should be measured and evaluated, and the results of their program activities will provide a basis to study costs and benefits. These studies are important because:

- CHP and the Division have common objectives
- Support for each is provided from the same revenue source
- Decisions to allocate this revenue can be made on the basis of measured benefits derived from the dollars expended

While CHP and the Division have common objectives and support, each will pursue its own objectives independently. With these competing demands on the same revenue source the Transportation Agency should take a more active role in planning for CHP and the Division.

Although the Division budget is under the jurisdiction of the State Highway Commission, while the CHP budget is subject to regular administrative and legislative control, the Transportation Agency should have responsibility to:

- Review and approve program definitions
- Review performance measurements

- Prepare analyses of costs and benefits
- Evaluate the respective contributions toward achieving common objectives
- Determine the best use of available resources

The Operation 500 study conducted by CHP and discussed earlier was undertaken to develop more data on the correlation between accidents and intensified enforcement. After full analysis this data should assist in establishing standards and measurements.

The incomplete analysis already made does reveal a number of significant points. For example, the information shows that:

- Overall, the number of accidents did not decrease as anticipated, but increased instead.
- There is no consistent pattern of change in accidents.
- Personal injury and property damage accidents increased markedly, but fatal accidents decreased.
- The number of accident victims increased, but the number of persons killed and severely injured decreased.

This information prompts the following questions:

- Why did the results vary so widely from those anticipated?
- Why did the six areas show such an inconsistent pattern of change in accidents?
- Did intensified enforcement activity produce decreases in the number of fatal accidents and in the number of victims killed, or are the decreases attributable to other factors? For example:
  - • Weather conditions
  - • Highway improvements
  - • Opening of alternate routes
  - • Change in traffic patterns or volume
  - • Change in speed limits

The answers to questions of this type are not now available from CHP. In addition, it cannot be ascer-

tained what influence, if any, the study itself may have had on the results.

Developing more information on accident reduction is only one of many areas that must be studied by CHP. Much work remains to be done to find sound and reliable measurements for all activities, but CHP should begin as soon as possible to develop models providing alternatives for the best use of manpower resources.

Models are simulated representations of real situations, and their use in the planning process permits a study of the probable effects associated with various factors and alternatives. They also provide the basis to improve decision making.

For example, in deciding the number of traffic officers to deploy for a special purpose many factors must be considered. Each factor represents a variable in the planning and decision process.

First, consideration must be given on the manpower required to provide a minimum or other level of service. Secondly, the effect of the manpower diversion upon other activities must be determined.

Answers to these and other questions are required for adequate planning, and simple solutions are not available due to the dynamic nature of the environment in which the CHP operates.

The development of models should not be deferred until all relevant information is collected, fully analyzed, and evaluated. Meaningful results can be obtained with assumed information when actual information is not available.

MANAGEMENT REPORTING SYSTEM

The California Highway Patrol is in need of a better management reporting system to assist officials at all levels in reaching decisions. Since September 1, 1968 the Patrol has been required to use program budgeting, and this procedure imposes a need for additional cost information.

In the past, it was sufficient to accumulate expenditures by such classifications as personal services, operating expenses, and equipment. This must still be done in the future, but additionally cost information must be accumulated and classified by program, subprogram or program element, and geographical area.

In conjunction with the financial cost information, the Patrol must also accumulate quantitative data relating to program activities. For example, man-hours spent on each kind of program activity must be accumulated to determine program cost and program performance.

The Auditor General's principal recommendations for developing a management reporting system are as follows:

1. Organize a permanent systems and procedures unit to develop and maintain efficient recordkeeping
2. Have the systems and procedures unit develop and install an improved management reporting system

There are several opportunities for systems and procedures improvements. The most significant are these:

- Attendance reporting procedures in CHP field offices can be performed more efficiently by computerized procedures.
- Most forms used by CHP field offices can be standardized.
- Accounting procedures in the accounting section can be simplified, and some procedures eliminated.
- Control procedures for citation forms can be simplified.
- Operating manuals can be improved.

To implement the improvements discussed above and to develop and install an improve management reporting system much work will have to be done by people skilled in these techniques. This requirement far exceeds the capacity of the Patrol's departmental management analyst. A larger and more comprehensive systems and procedures unit should be organized for the purpose.

The proposed unit should be staffed with not less than three systems and procedures specialists. At least one of them should be experienced in designing and installing computerized procedures. The unit should be responsible to, and under the direction of, the Chief of Staff, and it should operate as a staff function to all divisions, sections, and offices.

The departmental management analyst and the present supervisor of CHP's office services unit should be trans-

ferred to the new unit. The latter official should continue to be in charge of forms control and design.

When the systems and procedures unit has been organized, CHP should discontinue the use of computer programmers for systems analysis work. The need for computer programming work will increase substantially as soon as the management reporting system begins to function.

In addition to implementing the improvements already discussed, the new systems and procedures unit should begin a work program which will include the following phases:

1. Improve accounting procedures in the accounting section
2. Obtain outside help to develop a detailed plan for designing the most efficient management reporting system
3. Study information requirements at all levels of management
4. Design an account coding system and applicable procedures
5. Design management reporting formats
6. Design recordkeeping input and output procedures
7. Develop an implementation plan for a management reporting system, and applicable procedures
8. Present proposed systems and procedures to management at all levels for approval
9. Install approved systems and procedures

FIELD OPERATIONS AND PROCEDURES

California Highway Patrol operations are carried out by six zone commands, 64 area offices, 22 area substations, 2 scale stations, and 5 inspection facilities. Therefore, any improvement in field operations and procedures which applies to all field commands will have a significant effect on the overall operation of CHP.

To familiarize themselves with the Patrol's field operations and procedures, the Auditor General's staff visited the following offices:

- Los Angeles zone command
- Glendale area command

- Baldwin P
- Pomona ar
- South Los
- West Los
- Oakland a
- San Franc
- Vallejo ar

They found
field offices vi
exceptions. As
formation ga
which operati
CHP field cor
and volume o
At each of
made of:

- How traffi
- How traff
- How oper
are used
- The exter
are used
- Control p
- Clerical p
- Staffing p

As a result
manders cont
This deploym
personal judg
in certain m
The surve
proving pres

- Standard
- Using tr
- Reducing
- Simplify
- Reducing
- Eliminat
- Simplify

official should continue
und design.
res unit has been or-
the use of computer
s work. The need for
increase substantially
ting system begins to

improvements already
rocedures unit should
include the following

es in the accounting

p a detailed plan for
nanagement reporting

ents at all levels of

m and applicable pro-

: formats
nd output procedures
an for a management
le procedures
l procedures to man-
oval
l procedures

ations are carried out
s, 22 area substations,
ilities. Therefore, any
nd procedures which
ave a significant effect

he Patrol's field op-
litor General's staff

- Baldwin Park area command
- Pomona area command
- South Los Angeles area command
- West Los Angeles area command
- Oakland area command
- San Francisco area command
- Vallejo area command

They found that operations and procedures in the field offices visited were carried out uniformly with few exceptions. As a result, it can be concluded that the information gathered fairly represents the manner in which operations and procedures are carried out at all CHP field commands, except for variances in the scope and volume of work.

At each of the field offices surveyed, a review was made of:

- How traffic officers are deployed
- How traffic officers' performance is evaluated
- How operating reports received from headquarters are used
- The extent to which standard operating procedures are used
- Control procedures for supplies and equipment
- Clerical procedures
- Staffing practices in radio dispatch stations

As a result of the reviews, it was found that area commanders control the daily deployment of traffic officers. This deployment is based mainly on the area captain's personal judgment, and it has been greatly complicated in certain metropolitan areas by civil disorders.

The survey developed several opportunities for improving present operations and procedures. These are:

- Standardizing field office report forms
- Using traffic officers' time more effectively
- Reducing traffic officers' overtime
- Simplifying attendance reporting procedures
- Reducing supply of typewriters
- Eliminating unnecessary typing
- Simplifying accident reporting

Many field offices design and reproduce their own report forms. In one area office 47 report forms of this type are presently being used. In many instances these forms are similar to the report forms required by CHP headquarters, and they create some duplication of clerical work.

On the other hand, a field office may develop forms which help to make procedures more efficient, and when this is the case other offices should be able to benefit from it.

Centralized control over report forms should be placed with the CHP headquarters forms control unit. This unit now controls most CHP forms.

At the eight area offices surveyed it was found that 32% of the clerical time was spent preparing and processing reports. Therefore, any improvement in procedures dealing with report forms can produce significant cost benefits. In addition, greater standardization of forms and procedures will reduce the training required when an individual is transferred from one field office to another.

The Patrol operates 27 major and 13 minor central dispatch stations throughout the state. Major dispatch stations operate around the clock seven days a week, while minor stations usually operate less than 24 hours a day.

Three regular dispatch crews operate a station, each crew working an eight-hour shift. The workload varies during a 24 hour period, particularly in metropolitan areas where commuter traffic creates peakloads twice a day.

To help resolve manpower problems and achieve cost savings certain dispatchers should work split shifts. Workload and manpower requirements can be studied in greater detail, and assignment schedules developed to meet varying workload needs. The use of part-time help will also assist the adjustment of the manpower supply.

The time a CHP sergeant spends reviewing enforcement and activity reports varies greatly among the eight

area offices visited.
Patrol, the variati

Area o
San Francisco
Oakland
Baldwin Park
Pomona
South Los Angeles
Vallejo
Glendale
West Los Angeles

Much of this rev
ment and activity
completed. Most of
employees, and in
Only reports that
given to a sergeant
Clerks should b
of the reviewing w
devote more of t
they will be used n

DUTIES IN CENTRAL I

Not all field offic
in the same mann
staffing differs am

Field office
Vallejo Area Office
Oakland Area Office
Los Angeles Zone Office

2—79759

area offices visited. Based on information supplied by the Patrol, the variations are as follows:

Area office	Percent of Sergeants' time spent on report reviews
San Francisco	21
Oakland	26
Baldwin Park	27
Pomona	35
South Los Angeles	42
Vallejo	43
Glendale	54
West Los Angeles	65

Much of this review time is spent on checking enforcement and activity reports to see that they are properly completed. Most of this checking could be done by clerical employees, and in some offices they are doing it now. Only reports that are not properly completed should be given to a sergeant for review and followup action.

Clerks should be assigned to do as much as possible of the reviewing work, and if this is done, sergeants can devote more of their time to field supervision. Thus, they will be used more effectively.

DUTIES IN CENTRAL DISPATCH STATIONS

Not all field offices staff their central dispatch stations in the same manner. The following examples show how staffing differs among three of the field offices visited:

	Personnel assigned to radio dispatching duties			
Field office	Uniformed	Percent of total	Non-uniformed	Percent of total
Vallejo Area Office	--	--	6	100%
Oakland Area Office	14	64%	8	36%
Los Angeles Zone Office	22	48%	24	52%

As indicated by these examples, some field offices employ more non-uniformed employees for radio dispatching than others. The Vallejo area office has demonstrated that these duties can be staffed exclusively by non-uniformed personnel. Occasionally, when technical questions come up non-uniformed personnel consult with uniformed personnel assigned to other duties in the office.

Since most of the radio dispatching duties can be performed satisfactorily by non-uniformed personnel, they should be employed to the greatest extent possible. This will provide the following benefits:

- Reduce operating cost of dispatch stations because non-uniformed radio dispatchers are paid less than uniformed personnel. (Monthly salaries paid to non-uniformed dispatchers range from $480 to $584 and traffic officers are paid from $676 to $783.)
- Increase the time that traffic officers can devote to patrol duties, thus using them more effectively.

CONTINUE PRESENT ENDEAVORS TO REDUCE TRAFFIC OFFICERS' OVERTIME

Recently, the Governor's Task Force made several recommendations on how the CHP can reduce traffic officers' overtime. These recommendations deal with procedures and endeavors aimed at reducing the time traffic officers have to be available for court appearances.

The Joint Committee concurs with these recommendations and suggests that present efforts to implement them be continued and intensified.

In some areas better arrangements with the courts have been made to minimize (1) the time a traffic officer must be available to appear in court and (2) the time a traffic officer must spend to prepare documents for the court. For example, the San Francisco area office has made arrangements with the court to curtail the time to prepare an accident report by changing it from a detailed to a summarized report.

The overtime referred to above can be further reduced in some area offices if methods proved to be beneficial in other offices are introduced to the greatest extent possible.

ɔs, some field offices em-
yees for radio dispatch-
ı office has demonstrated
exclusively by non-uni-
when technical questions
l consult with uniformed
ɔs in the office.
ching duties can be per-
iformed personnel, they
est extent possible. This
s:

spatch stations because
hers are paid less than
ly salaries paid to non-
from $480 to $584 and
$676 to $783.)

c officers can devote to
m more effectively.

REDUCE

Force made several rec-
ın reduce traffic officers'
s deal with procedures
the time traffic officers
ppearances.
with these recommenda-
forts to implement them

ements with the courts
the time a traffic officer
ourt and (2) the time a
pare documents for the
rancisco area office has
t to curtail the time to
changing it from a de-

can be further reduced
oved to be beneficial in
he greatest extent pos-

IMPROVE ATTENDANCE REPORTING PROCEDURES

In the eight area offices visited, clerical personnel spend about 1,100 hours a month preparing and processing attendance reports. Most of the information used for preparing these reports is already being transmitted to CHP's data processing installation, and it would be more efficient to prepare attendance reports by data processing methods.

To do this, existing attendance reporting procedures should first be studied in detail to develop the most efficient computer procedures. This should be done in conjunction with planning and developing the management reporting system already recommended.

The estimated savings that can be realized from processing attendance reports by computer will be about $180,000 a year. This estimate is based on a potential saving of seven percent of 400 clerical positions in the field offices costing about $450 a month plus 20 percent in fringe benefits.

Other potential savings such as the clerical time that could be eliminated in the CHP personnel section and applicable filing costs have not been considered. Also, the costs of additional required computer procedures have not been determined. However, these costs would be insignificant due to the fact that most needed information is already transmitted to the computer system through the daily activity report.

Reduce Supply of Typewriters

During the survey of field offices the Auditor General's staff concluded that the supply of typewriters could be reduced substantially, and much of the typing work presently performed could be eliminated.

Based on an analysis of the information gathered in nine field offices it was found that only 12 percent of the available typewriter hours were used during a day shift. In addition, the number of typewriters available exceeds by far the number of stenographers, typists, and clerical people employed.

Clerical personnel in the Los Angeles zone office spend about 30 percent of their time typing, while clerical personnel in the area offices devote about 16 percent of their time to typing work.

Using these percentages and assuming that typewriters are available for use 126 hours a month, the Auditor General's staff calculated the total number of available typewriter hours, the estimated usage per month, and the number of hours typewriters are idle.

The tabulation showed that about 400 of the 579 typewriters presently available are not needed, and the present supply of typewriters could be reduced substantially. A one-time saving can be realized by reducing the supply of typewriters as recommended above.

At present, many reports and office memos within the CHP are prepared by hand and subsequently typed on a separate form. This typing work is unnecessary because most, if not all, handwritten documents are legible and serve their purpose just as well as a typed document.

SIMPLIFY CERTAIN ACCIDENT FORMS AND REPORTS

When traffic officers and CHP vehicles or other state properties are involved in an accident, many CHP forms and reports must be prepared to:

- Provide the courts with information for adjudicating accident responsibility and liability
- Establish evidence in documentary form to determine and authorize compensation to injured CHP employees
- Record the events that lead to the damage of state property so that responsibility for the damage and the recovery thereof can be fixed
- Document relevant events and circumstances to determine what caused the accident
- Accumulate accident data by traffic officer and by highway location and area.

According to present procedures more than 12 forms or reports are prepared to fulfill the above requirements. Most of the information shown in one report is also shown in other reports prepared for the same accident.

The Auditor General's staff did not have enough time to study and analyze these reports in sufficient detail to develop detailed recommendations for simplifying the reporting procedures involved. However, they believe

it is possible to consolidate two or more reports into one by redesigning forms so that more than one form can be prepared in one writing. This would not only reduce the time it takes for traffic officers and clerks to prepare them but also reduce opportunities for making errors in transcribing information from one report to another.

The feasibility of preparing some of the above reports by electronic data processing methods should also be studied.

*　　*　　*　　*　　*

Implementing the recommendations in this section can result in significant savings. These can be made by:

- Computerizing attendance reporting (estimated at $180,000 annually)
- Eliminating unnecessary typing and proofreading
- Reducing number of typewriters in field offices
- Standardizing field office report forms
- Changing traffic officers' work assignments
- Reducing traffic officers' overtime.

ADMINISTRATIVE OPERATIONS AND PROCEDURES

In this section we describe the opportunities found for improving certain operations and procedures performed by the administrative services division of CHP.

Except for some weaknesses in accounting controls, described in a following section, opportunities were found for:

- Reducing handling of supply inventories
- Simplifying citation control procedures
- Improving auto theft recordkeeping procedures
- Improving accounting procedures

Most CHP supplies are now available at the following locations:

a. Department of General Services warehouses
b. CHP Headquarters stores and equipment warehouse
c. CHP field offices

This means that most inventory items are shipped twice before reaching their final destination. Handling and shipping inventories in this fashion is expensive, and results in the stocking of more supplies than necessary.

CHP is one of eight state departments operating a redistribution warehouse. However, the Department of General Services has informed the Auditor General that it plans to take over these warehouse functions as soon as practicable to eliminate redistribution costs.

To achieve some of these cost savings as soon as possible the Auditor General has made a number of recommendations to CHP on the requisitioning and shipping of supplies.

Five clerks in the CHP office services section presently receive copies of all citations issued to check that citation serial numbers are accounted for.

This function can be eliminated by the following simplified procedure. The office services section need only:

- Keep a record of the citation book inventory at the CHP redistribution warehouse (until this facility is discontinued)
- Keep a file of field office requisitions for citation books
- Keep a file of control slips for completed citation books

In the next section of this report we describe how the number of copies of each citation can be reduced from five to three. Future citation books can contain 50 sets instead of 25, and the office services section would then have to handle only one-fiftieth of the present volume of paper.

The implementation of this recommendation could save five clerical positions, or about $30,000 each year. In addition, it will eliminate the need for many filing cabinets, work desks, and floor space now occupied.

The auto theft unit of the CHP special services section maintains a punched card file on stolen vehicles, stolen license plates, and felony arrests. The file is also known as the "stop card file".

CHP's data processing section punches the cards for this file automatically when the master license magnetic tape file is updated by computer. Thus, the punched cards contain the same information as the master license file.

More than 50,000 active cards are always in the stop card file, and combined additions and withdrawals from the file total 400,000 cards each year.

It is essential that information on the master license file not be lost, and therefore an auxiliary file must be kept. However, the stop card file does not fulfill this requirement satisfactorily, and it would be more efficient to use master license magnetic tape files as described below.

The data processing section should keep the following magnetic tapes in safe storage away from the computer room:

- Last two days' master license file tapes
- Current and preceding day's master license file transaction tapes

In this way, a current basis for reconstructing today's master license tape will be readily available at no additional cost, and the present stop card file can be discontinued.

A clerical cost saving of more than $3,000 a year can be realized by placing this recommendation into effect.

Most procedures in the CHP accounting section are done by hand, and only a few have been automated. Although the Auditor General's staff did not make a detailed analysis of all accounting procedures and processes now in use, they found that some can be simplified, eliminated, or performed more efficiently by electronic data processing methods.

The Auditor General has made a number of recommendations to CHP on improving present accounting procedures, records and files, and reports.

By implementing all the recommendations set forth in this section, the Joint Committee estimates that tangible cost savings of approximately $45,000 per year can be realized.

In addition, significant intangible benefits can be obtained by simplifying and computerizing accounting procedures so that they will provide better and more timely financial information.

INTERNAL AUDIT AND CONTROL

During the survey the Auditor General's staff found several conditions that present opportunities for im-

proving internal audit and control procedures. Briefly stated, these are:

- Internal auditing, as now practiced, is capable of being improved, and its coverage should be extended to certain activities that are not now examined:
- Citation control procedures should be simplified
- Controls over postage and cash should be strengthened

The Auditor General's observations should not be construed to be a blanket criticism of accounting and auditing methods. The purpose of the survey is to point out only those conditions warranting improvements.

The internal auditing function, which is an important part of the internal control system, may best be understood by first considering the purpose of internal control.

Internal control consists of the functional organizational plan and all methods and measures adopted by management to (1) safeguard assets; (2) check accuracy and reliability of accounting data; (3) promote operational efficiency; and (4) encourage adherence to prescribed managerial policies.

CHP management, both at headquarters and field offices, is responsible for internal control, and the responsibility of the internal auditor should be to satisfy himself that the system is effective and producing the desired results.

To improve internal auditing in CHP, the Auditor General's staff have made the following recommendations:

(1) Revise the internal audit program and obtain management approval
(2) Review internal controls regularly
(3) Improve internal audit reports
(4) Eliminate duplication of work, and clearly define responsibilities between internal auditing and zone inspection
(5) Improve testing procedures, documentation of tests completed, and working paper procedures
(6) Provide opportunity for training an internal audit staff

Each of these recommendations, as well as other conditions discussed in the full report, requires an increased

capability beyon
unit. Therefore,
gram is necessar

- Become kno
gram budge
- Become fam
applications
coverage, an
- Learn to ap
- Keep abrea

Citation cont
Strong control
maintained so t
minimized, and

The principal
cedure recomme
follows:

- Establishes
headquarter
ventory by
over shipme
- Establishes
and over th
tions issued
- Eliminates
as follows:

Proposed dist

Field office
Court
Traffic viola
(Eliminated
(Eliminated

- Provides a
ing and voi
- Provides a
individual c

capability beyond that now available to the internal audit unit. Therefore, a training and self-improvement program is necessary so that the audit staff can, for example:

- Become knowledgeable in the requirements for program budgeting and accounting
- Become familiar with changes in the data processing applications that can be utilized to improve audit coverage, and to make audit testing more effective
- Learn to apply statistical sampling techniques
- Keep abreast of new or expanded CHP activities.

Citation control is extremely important to CHP. Strong control over citations must be established and maintained so that opportunities for improper use are minimized, and any irregularities promptly detected.

The principal features of the citation control procedure recommended by the Auditor General are as follows:

- Establishes control in the Office Services Section at headquarters over unissued citation books held in inventory by the Stores and Equipment Section, and over shipments of citation books to field offices
- Establishes control in field offices over unused books, and over the numerical sequence of individual citations issued
- Eliminates two copies from a set of citation forms, as follows:

Proposed distribution	Present distribution
Field office	Field office
Court	Court
Traffic violator	Traffic violator
(Eliminated)	Headquarters
(Eliminated)	Traffic officer

- Provides a positive control in field offices over missing and voided citation numbers
- Provides a file in numerical order in field offices of individual citations issued

- Establishes control and positive follow-up procedure in headquarters for used and long-outstanding citation books.

Current CHP policy provides that postage supplies should be replenished quarterly, and that postage on hand should not exceed three months' usage.

The Auditor General's review disclosed that this policy was not being adhered to by some offices, and in some cases the supply of postage on hand exceeded five months' normal usage.

The Auditor General recommends that field offices replenish their postage supply monthly, and the supply on hand be restricted to one month's normal usage. He estimates that about $2,600 can be earned annually by investing the excessive funds now tied up in postage.

The review of cash procedures disclosed the following control deficiencies:

- Remittances received in the cashiering unit at headquarters are not recorded and deposited immediately upon receipt
- Remittances received in area offices from the sale of automobiles and motorcycles are not transmitted promptly to headquarters.

The Auditor General has made recommendations to correct these deficiencies, and the CHP accounting officer has agreed to accept the suggestions to improve control over cash.

OPERATIONS AND PROCEDURES MANUALS

Due to the widespread geographical operations of CHP, communication in the form of manuals and directives is a significant factor in establishing and maintaining efficient operating procedures. Consequently, CHP has a large number of manuals, and many written communications are issued to guide operating and clerical personnel.

To assist in obtaining information during the survey, the Auditor General's staff reviewed a number of CHP manuals, and headquarters, zone, or area office general orders. As a result, several opportunities were noted to make CHP's operations and procedures manuals more useful.

.tive follow-up procedure
nd long-outstanding cita-

.s that postage supplies
and that postage on hand
usage.
disclosed that this policy
ome offices, and in some
nd exceeded five months'

ends that field offices re-
nthly, and the supply on
's normal usage. He esti-
earned annually by in-
tied up in postage.
s disclosed the following

cashiering unit at head-
d deposited immediately

a offices from the sale of
es are not transmitted

ade recommendations to
CHP accounting officer
ions to improve control

IUALS

graphical operations of
rm of manuals and di-
establishing and main-
ocedures. Consequently,
uals, and many written
ide operating and cleri-

tion during the survey,
wed a number of CHP
, or area office general
rtunities were noted to
ocedures manuals more

In addition, while using the manuals and orders during the survey several deficiencies were observed. These are:

- Manuals, particularly for field operations, were outdated
- There are no procedures in effect to regularly update manuals
- Headquarters general orders are not incorporated into manuals
- Information is duplicated in several manuals
- Field office standard operating procedure manuals are not standardized, and there are no guidelines in effect for their preparation
- Most manuals do not contain an index
- Format and style of writing are not standardized.

These deficiencies should be corrected by (1) developing efficient procedures for preparing and updating operations and procedure manuals, and (2) bringing present manuals up to date on a systematic basis.

In developing these procedures, the following features should be provided:

- Looseleaf standard page format, preferably 8½ x 11 inches, with preprinted boxes for heading information, such as manual title, procedure title, date issued, date revised, section number, and page number
- Standard three-ring binder with divider tabs for each procedure or manual section
- Organization of procedures in smaller sections by individual tasks so that sections can be separately issued where desired
- Narrative written in playscript format as illustrated in Section VII, Internal Audit and Controls, beginning on page 117
- Comprehensive index by subject matter to make it easier to find wanted information
- Procedures for making necessary changes and additions to manuals.

The principal purpose of manuals is to communicate policies, ideas, concepts, and instructions. People are reluctant to use manuals that:

- Do not look interesting
- Are not well organized as to subject matter
- Do not quickly answer questions
- Do not use descriptive subject titles
- Are filled with details not needed by the user
- Consist of long paragraphs which do not invite easy reading
- Require intensive reading to understand
- Do not follow a logical action pattern in proper order.

Bringing present manuals up-to-date will be a substantial and time consuming task. To insure that the systems and procedures unit of CHP retains control over manuals at all times it is essential that they be brought up-to-date according to a predetermined time schedule.

CHAPTER TWO
TRANSPORTATION AGENCY

REPORT ON THE REVIEW OF FUNDS USED TO ACCOUNT FOR HIGHWAY USERS TAXES

In a report dated October 17, 1968 the Auditor General reviewed the use of the eleven funds, largely under the authority of the Transportation Agency, which are used to account for highway users taxes. The purpose of the review was to determine whether the management and reporting of these taxes could be improved with fewer funds.

As a result of the review we recommended that:

- All present funds, except the Highway Users Tax Fund, be abolished
- A new State Transportation Fund be established
- All highway users taxes be deposited in the Highway Users Tax Fund
- Refunds, allocations, and expenses of other agencies applicable to highway users taxes be paid from the Highway Users Tax Fund.
- All expenditures for transportation, excluding toll facilities, be made from the State Transportation Fund
- The flow of funds be expedited by requiring that 90 percent of the net revenues in the Highway Users Tax Fund at the end of a month be allocated and/or transferred by the 10th of the following month.

In the review the Auditor General discussed the reasons why these funds were created, and why they are not now needed. Many funds were created when the general accounting system was inadequate, and separate funds gave the appearance of better control.

It was assumed that separate funds were necessary for proper reporting of specific taxes, and as new activities and responsibilities were added it was assumed that separate funds were required for accounting purposes.

A brief description of the funds which could be abolished, or in the case of the Highway Users Tax Fund materially changed by the Auditor General's recommendations follows:

Aeronautics Fund

Established in 1965 to account for transfers from the Motor Vehicle Fuel Fund of tax collected on fuel used for aircraft. Balance remaining in this fund after payment of refunds, prorata costs of administering agencies, and support of the Division of Aeronautics is transferred to the Airport Assistance Revolving Fund.

Airport Assistance Revolving Fund

Established in 1961 to assist local government by providing matching aid for airports. Concurrent with the creation of the Aeronautics Fund the name of this fund was changed to present title. Transfers from Aeronautics Fund are used for apportionments and grants to local government.

State Highway Fund

Transfers from the Highway Users Tax Fund and federal aid reimbursements are principal resources of this fund. Payment of costs of the state highway program, and some city street and county road support are principal expenditures.

Highway Users Tax Fund

This fund receives transfers from the Motor Vehicle Fuel Fund, the Motor Vehicle Fund, and the Motor Vehicle Transportation Tax Fund. Apportionments are made to cities and counties, and transfers are made to the State Highway Fund.

Motor Vehicle Fund

Vehicle registration and weight fees, driver's license fees and other fees are deposited in this fund. Balance in excess of the support costs of the Department of Motor Vehicles and California Highway Patrol is transferred to the Highway Users Tax Fund.

Motor Vehicle Fuel Fund

The fuel tax on gasoline and the excise tax on diesel fuel, plus a small amount of regulatory license fees, are deposited in this fund. After payment of support to the

State Controller and State Board of Equalization for collection and refund costs, balances are transferred to the Harbors and Watercraft Revolving Fund, the Aeronautics Fund, and principally to the Highway Users Tax Fund.

Motor Vehicle Transportation Tax Fund

The transportation tax of one and one-half percent of taxable gross receipts derived from for-hire operations and furnishing leased vehicles, together with a small amount of miscellaneous revenue is deposited in this fund. After payment of support to the State Controller and State Board of Equalization and payment of small specific appropriations, the balance is transferred to the Highway Users Tax Fund.

Street and Highway Disaster Fund

Established in 1965 to account for receipts and disbursements of 40 percent of the one-cent-per-gallon increase in the motor vehicle fuel tax and use fuel tax in effect from April 1 through August 31, 1965. At present, federal aid is the only income of the fund. Receipts from the federal government are deposited in the State Highway Fund, transferred to this fund and then, in part, transferred back to the State Highway Fund. Disbursements are also made to local governments for emergency flood relief costs.

Motor Vehicle License Fee Fund

License in lieu fees, house trailer fees, and county vehicle license fees are deposited in this fund. After payment of administrative costs, principally to the Motor Vehicle Fund, apportionments are made to cities and counties.

Highway Right of Way Acquisition Fund

This fund was created in 1952 to provide for advanced acquisition of highway right of way. The assets as of June 30, 1968, consisted of cash and right of way properties offset by liabilities of $27,098,146 due to the Motor Vehicle Fuel Fund and Motor Vehicle Fund. The objectives of this fund may be obtained by authorizing advanced acquisitions directly from the State Highway Fund or the proposed State Transportation Fund.

Highway Properties Rental Fund

Established in 1959 to account for the counties' share of 24 percent of gross rentals collected by the Division of Highways on certain right of way rental properties. As collected, the total amount of each receipt is deposited in the State Highway Fund with monthly transfers to this fund. Annually, by November 30th, distribution is made to counties. Detail records used to determine monthly transfers to the fund, and annual distribution to the counties are a part of the State Highway Fund records.

In response to a request from the Assembly Committee on Transportation and Commerce, the Director of the State Department of Public Works replied to our report.

In its reply, the Department agreed that a review of the existing highway users fund structure was in order, and that some of the funds could be eliminated. However, the Auditor General's recommendations were described as going too far and provided for ". . . a fund structure that appears to be so simplistic as to be unusable".

In the opinion of the Joint Committee, the benefits obtained by reducing the number of funds from 11 to 2 are as follows:

(1) More rapid utilization of resources for their intended purposes

(2) More complete and meaningful reporting of operating results and financial position, and

(3) Reduced administrative and accounting costs

While more rapid resource utilization is the principal benefit to be realized by the Auditor General's recommendation, in its reply the Department of Public Works offers no comment on it.

In most cases, resources for governmental activities are insufficient to do all that is regarded as necessary, but there is always a surplus of revenues for transportation purposes.

In part, this is due to the annual receipt of vehicle registration and weight fees during the period from January through March. However, the balance of cash, investments, and short-term interfund loans on December 31, 1967 in the 11 transportation funds was $214 million, and this was prior to the year's renewal receipts.

These resources are not fully utilized due to present practices permitting delays before revenue is transferred to the fund from which it will be expended.

For example, gasoline taxes collected by vendors in December 1968 were received by the state by the first day of the second month following collection, or February 1, 1969. Most revenue is received on that date. Transfers to and from the Highway Users Tax Fund were made on the 25th of the following month, or March 1969. A comparison of the average cash balance in the State Highway Fund with the annual amount of highway users taxes transferred into the fund indicates an approximate delay of five months in usage.

Therefore, the gasoline taxes paid in December 1968 were not expended and utilized on the state highway system until August 1969, pointing up a total time lag between collection and usage of eight months.

Obviously, it is desirable to shorten this time period if the tasks to be accomplished are important. The Joint Committee believes they are.

In the Department reply to our report, it is asserted that our ". . . report is not specific on how financial reporting would be significantly benefitted by creation of a single transportation fund". The report described improvement in reporting both the financial condition and results of operations. The following is from page 11 of the full report:

> "Because financial transactions are recorded by fund, it is only by consolidating the various fund records that the total results of operations and financial condition information becomes available. Consolidated reports of the various funds are not now prepared. As a consequence, when information is wanted on the total operations or financial condition, several sources must be consulted. For example, the above schedule of cash, investments, and short-term interfund loans was obtained from 11 set of records."

The schedule referred to above is on page 7 of the full report, and shows total cash, investments, and short-term interfund loans amounting to $214 million at December

31, 1967. In addition, the schedule shows a figure of $351 million at June 30, 1968 from the same sources.

The following is also from page 11 of the full report:

> "By replacing the 11 funds listed above with two funds, improved reporting would result. The implementation of program budgeting places primary emphasis on the best use of resources to fulfill basic governmental objectives. To fully realize the benefits of program budgeting it is beneficial that expenditures serving the same general program be related regardless of the fund involved. To illustrate, both the Division of Highways and the California Highway Patrol have as a primary objective the improvement of highway safety. By accounting for all transportation expenditures in a single fund, the total expenditures for each objective, such as promoting highway safety, would be more readily brought together. Under present practices, there is no consolidated reporting. Furthermore, differences in the classification of expenditures among the funds impedes meaningful consolidation of the various fund records, and reporting by program is not practicable."

Obviously, combining unrelated activities such as transportation and education in the same fund would serve no useful purpose. However, no serious problem is created if unrelated activities are accounted for in one fund because separate accounts within a fund can serve the same purpose as separate funds. The state's General Fund is used to account for a variety of unrelated activities.

In previous financial audit reports the Auditor General recommended that at least a few of the transportation funds be abolished. On November 13, 1968 the Department of Public Works responded negatively to his recommendation to abolish the Highway Right of Way Acquisition Fund.

However, less than a month later on December 11, 1968 in responding to the Assembly Committee on Transportation and Commerce regarding the later recommendations to abolish ten transportation funds, the Department changed its position as follows:

> "Several of the Auditor General's recommendations should be implemented by the Legislature at once. For

example, there would appear to be no adverse effect resulting from some restructuring of the Highway Right of Way Acquisition Fund and the Highway Properties Rental Fund and re-establishing them as separate accounts within the State Highway Fund. The Department of Public Works would be glad to prepare legislation implementing this proposal."

When the recommendations were limited to abolishing a few of the less important funds, they were not acceptable. However, when the recommendation became one to abolish almost the entire fund structure the Department quickly agreed to abolish a few of the less important funds.

During the current 1969 session of the State Legislature, legislation has been introduced by the Chairman of the Assembly Committee on Transportation and Commerce to substantially implement the Auditor General's recommendation on abolishing and revising the transportation fund structure.

If successful, this legislation will result in a one-time only extra distribution of $25 million in highway funds to Cities and Counties in June 1970. Additionally, the legislation will speed up distribution of $200 million in revenue to Cities and Counties, and $200 million to the State Highway Fund for road purposes from registration fees, etc.

STATE HIGHWAY FUND

The Auditor General's report on the examination of the State Highway Fund for the year ended June 30, 1966 contained an adverse opinion on the fairness of the financial statements, and a total of 29 recommendations were included in the report.

This section will summarize the present status of those recommendations and other related subjects.

The firm of Price Waterhouse & Co. was engaged by the Division of Highways to evaluate the Auditor General's recommendations, and to suggest a course of action. On October 10, 1968 Price Waterhouse & Co. reported as follows:

- Adopt the recommendations in the Auditor General's report

- Make a study of the Division's general accounting records and procedures in order to streamline and bring them up to date
- Strengthen the top levels of accounting management
- Take action to deal with the problem of record storage
- Revise the internal audit organization, programs, and procedures.

The Price Waterhouse study estimates that 178 man-months will be required to fully implement all recommendations.

While most of the implementation work will be performed by employees of the Department of Public Works, a request for proposals from private consultants to perform a study of the general accounting records and procedures has been issued. The estimated cost of this study is $100,000. The contract award is scheduled to be announced in March 1969, and all work with full implementation of the system is to be completed by July 1, 1970.

The end product of the study is to be (1) an operating general accounting system which is in accordance with generally accepted governmental accounting principles and, (2) an up-to-date general accounting manual.

Effective January 15, 1969 the headquarters accounting department of the Division of Highways, together with other administrative departments, were transferred from the Division of Highways to a newly created Division of Administrative Service within the Department of Public Works.

This change is not directly related to the Auditor General's recommendation, but does indicate that greater importance is being given to accounting and related administrative activities.

Independently of the proposed study of the accounting system by a private consultant, personnel of the Division of Administrative Services are continuing to study the Auditor General's recommendations.

Financial statements for the year ended June 30, 1968 will be in the format suggested in our report. The Auditor General's recommendations regarding inventories are to be incorporated into new supply procedures, and

a study of the recommendations regarding fixed assets is nearing completion.

A progress report regarding all studies and the implementation of the recommendations is planned for early in 1969 by the Division of Administrative Services.

The first recommendation in the report for the year ended June 30, 1966 proposed several changes in the preparation of the state highway budget which would enable the budget to represent the fiscal year financial plan. Neither the studies now in progress by accounting personnel, nor the study to be made by a private consultant includes consideration of this recommendation.

However, a study now in progress by another consultant has as one of its primary objectives improving the overall planning and control process. This consultant's study should produce changes in the budgetary practices in accordance with our recommendations. The study began recently, and the Auditor General will continue to observe its direction and progress.

Several years ago, the Auditor General advised the Joint Committee that some federal reimbursements for design costs incurred before July 1, 1964 on the interstate system were not being recovered due to the fact the accounting system did not adequately identify these costs. Accounting personnel agreed with the Auditor General's findings, but it was recognized that recovery of the costs would require time because project records back to 1956 would have to be analyzed.

This work has been completed in highway district 2 (Redding), and we have been informed that an additional federal reimbursement of approximately $300,000 has been recovered.

Work is still in process in other highway district offices, and if recovery in other districts is proportionately the same, potential recovery of these design costs could be in the amount of $3 to $4 million.

The current billing system for claiming federal reimbursements has been in operation since July 1, 1967. Although the system enables more rapid receipt of federal progress payments, it does not improve the ability to recover maximum federal aid. The Auditor General is in process of reviewing all federal aid procedures, and examining specific reimbursements.

LIMITATION OF EXPENDITURES FOR GENERAL ADMINISTRATION AND MAINTENANCE

(Section 186, Streets and Highways Code)

At the request of the Joint Committee the Auditor General has brought up to date the information contained in our 1965 report on the Limitation of Expenditures for General Administration and Maintenance, and included in our last Biennial Report.

With some exceptions, expenditures from the State Highway Fund for general administration and maintenance are limited to an amount not exceeding the revenue derived from one-cent-per-gallon tax on motor fuel.

This limitation gives effect to only one variable, the changes in motor fuel usage. The highway program has grown more rapidly than the increase in fuel usage, and it has been necessary to exclude from the limitation some costs formerly included in the administrative and maintenance classification.

In the 1965 report, the Auditor General recommended "that a study be conducted to establish standards that will provide a basis to measure the financial requirements of the administrative and maintenance activities of the Division of Highways so that compliance with a limitation on noncapital outlay expenditures for highways may be achieved without using inconsistent methods of expenditure classification."

No action has been taken on the recommendation, and it appears that the limitation will be exceeded during this or the next fiscal year unless additional changes are made in the cost classification.

The need to revise the classification of expenditures from time to time is due to the fact the present limitation does not provide for changes in the dollar purchasing power, or increases in state and federal motor vehicle fuel tax rates.

Since the effective date of Section 186, Streets and Highways Code, the portion of the state gasoline tax rate available for the state highway system has increased 106%, and federal aid receipts are now more than 30 times greater than when the Section was added to the Streets and Highways Code.

The following tabulation shows the expenditures subject to the limitation, revenue from one-cent-per-gallon

(In Millions of Dollars)

MITTEE

R GENERAL NCE

:ee the Auditor
ıformation con-
ion of Expendi-
aintenance, and

from the State
tion and main-
eding the reve-
on motor fuel.
ıe variable, the
ıy program has
fuel usage, and
limitation some
ıtive and main-

ıl recommended
standards that
ancial require-
nance activities
ıpliance with a
ures for high-
sistent methods

mendation, and
xceeded during
ıal changes are

f expenditures
present limita-
he dollar pur-
federal motor

6, Streets and
ısoline tax rate
has increased
more than 30
added to the

ıenditures sub-
cent-per-gallon

(In Millions of Dollars)

Fiscal year ended June 30	Expenditures subject to limitation: General administration	Maintenance	Research and development	Total	Revenue from one cent per gallon tax	Excess of revenue over expenditures
1959	$9.3	$31.9	$1.9	$43.1	$52.1	$9.0
1960	9.6	34.3	3.1	47.0	54.7	7.7
1961	10.7	37.5	3.3	51.5	57.5	6.0
1962	12.2	41.5	2.2	55.9	59.5	3.6
1963	13.4	45.6	2.9	61.9	63.0	1.1
1964	13.3	44.0	2.6	59.9	68.7	8.8
1965	16.0	47.7	2.1	65.8	69.0	3.2
1966	17.4	50.0	3.0	70.4	73.6	3.2
1967	19.5	52.0	3.3	74.8	77.4	2.6
1968	19.8	56.5	3.3	79.6	81.5	1.9

tax, and the excess of revenue over expenditures for the past ten years.

As the tabulation shows, starting ten years ago the excess of revenue over expenditures decreased each year, until for the year ended June 30, 1963 the excess was only $1.1 million.

In June of 1963, and during the year ended June 30, 1964, the following changes were made to prevent the limitation from being exceeded:

(1) Section 188.3 of the Streets and Highways Code was amended to exclude the cost of maintenance of all landscaping and functional planting on state highways from the limitation of Section 186

(2) Planning costs were reclassified as capital outlay expenditures

(3) The definition of general administrative costs was revised

While the changes listed above continued compliance with Section 186 during the year ended June 30, 1964, and subsequent years, the excess of revenue over expenditures maintains a steady decline.

As a result, the Division of Highways is considering the following additional changes:

(1) Reclassifying research and development costs as capital outlay

(2) Removing the legislative portion of the services of general administrative agencies from the definition of general administrative costs, and

(3) Removing tort claims from the definition of general administrative costs

It is clear that the pattern of revising the cost classification from time to time to enable compliance with the code limitation will continue unless there is a revision of Section 186 to establish a reasonable method of controlling administrative and maintenance costs.

In the last Biennial Report we recommended that a study be conducted to resolve this problem; we repeat that recommendation at this time.

REPORT ON REVIEW OF EXCESS LANDS

The Auditor General has reviewed the composition of the excess land inventory held by the Division of High-

ways, and the procedures whereby excess parcels are acquired and disposed of by the Division.

The purpose of the review was to determine the conditions under which property in excess of that needed for right of way is acquired, the controls exercised over these excess parcels during the time they are held by the state, and the methods of disposing of excess lands.

Informal excess land records maintained by the District right of way departments show an inventory, as of June 30, 1967, of 10,990 parcels aggregating 30,016 acres, with a recorded cost of almost $53 million.

Across the nation, the various states do not have uniform practices regarding acquisition of excess lands. The statutes of some states limit acquisition of property to that necessary for a public improvement, while in other states, including California, the statutes provide substantial latitude to the highway departments in this regard.

The California State Supreme Court has reversed two lower courts' findings that the statute under which the Division of Highways acquires excess land was unconstitutional.

The significant increase in the amount of excess land acquired in recent years coincides with the increase in freeway and interstate highway construction.

Acquisition of excess land (1) is an alternative to paying severance damages, (2) usually is of benefit to the grantor, (3) frequently results in savings to the state, and (4) most often arises in connection with property acquired for freeways.

Generally, a remainder is considered for acquisition as excess land when in the opinion of the Division the owner cannot reasonably be expected to manage or dispose of the property without undue burden.

Landlocking may result from the taking of legal access, and severe grade changes resulting from cuts and fills can have the effect of landlocking although legal access has not been taken.

Leaving a remainder of such size or shape as to have doubtful utility, value, or desirability to the owner, or not capable of independent or economic use would cause undue burden on the grantor, adjacent property owners, and the community.

The Division of Highways acquires excess land by both negotiated purchase and by condemnation under the following Section 104.1 of the Streets and Highways Code:

"Whenever a part of a parcel of land is to be taken for state highway purposes and the remainder is to be left in such shape or condition as to be of little value to its owner, or to give rise to claims or litigation concerning severance or other damage, the department may acquire the whole parcel and may sell the remainder or may exchange the same for other property needed for state highway purposes."

In a recent case, the Superior Court of Merced County and the Fifth Appellate District of the Court of Appeal ruled that while the Division of Highways could acquire excess land from a willing grantor, the condemnation of excess land under Section 104.1 of the Streets and Highways Code was unconstitutional.

In this case the Division sought to condemn approximately 54 acres in order to avoid payment of severance damages. The acreage became landlocked as the result of freeway construction on approximately one-half acre, also acquired from the owner.

By a five-to-two split decision issued on February 1, 1968 the State Supreme Court reversed the lower courts' findings on the basis that (1) the taking of property to avoid excessive severance or consequential damages can be a public use, and (2) it is for the Legislature to determine what is a public use for the payment of eminent domain.

The Supreme Court instructed the trial court ". . . that it must refuse to condemn the property if it finds that the taking is not justified to avoid excessive severance or consequential damages. The latter holding will assure that any excess taking will be for a public use, and preclude the department from using the power of excess condemnation as a weapon to secure favorable settlements."

The Supreme Court decision provides a more precise definition of the circumstances which must be present to justify acquisition of excess land.

When property is not needed for a public improvement, the taking of such property to avoid excessive

severance or consequential damages is the public use which justifies acquisition.

The present methods of documenting and accounting for the acquisition of excess land are deficient, and it is not practicable to determine from the records maintained by the Division of Highways whether acquisitions are justified under the above criterion.

The deficiencies are as follows:

(1) The cost of the excess land is not distinguished from the cost of the portion of property needed for highway construction. Total payment is reported as a cost of right of way.

(2) Value assigned to excess land is an allocation of the total land acquisition cost based on area, rather than the estimated sales or exchange value.

(3) Only infrequently do records show that a determination has been made of severance damages payable if a partial acquisition had been made.

Due to these deficiencies, it is not possible to ascertain whether the decision to acquire excess land was based upon excessive severance or consequential damage factors.

In addition, these deficiencies result in the accounting reports showing the financial condition and operation of the State Highway Fund to be materially in error.

In order (1) to provide the basis for determining whether the acquisition of excess land is justified, (2) to establish the means for evaluating the practice of retaining excess land, and (3) to eliminate the deficiencies in accounting reports and records, the following changes should be made:

(1) Appraisal reports for acquisition which include excess land should contain (a) the estimated sales or exchange value of the excess land and (b) the severance damage related to the excess land.

(2) Severance damage related to excess land should be included as part of the right of way cost.

(3) Estimated sales or exchange value of excess land purchased should be accounted for as an investment.

(4) At time of sale or exchange of excess land, the gain or loss should be reflected in the operating statement.

Current implementation plans of the Division will result in the present valuation of excess lands being recognized as an asset, in line with an earlier recommendation by the Auditor General.

However, excess land purchases will be reported both as an operating expenditure and as the acquisition of an asset. This duplicate accounting is improper, and leads to confusing and erroneous financial reports.

The Auditor General also recommends that for all acquisitions of parcels involving areas larger than those necessary for right of way, the reasons for the acquisition of excess land be documented in the records.

While the acquisition of excess land by the Division and its subsequent disposal at public auction is in many instances beneficial to the grantor, these transactions raise the question of the need for the Division to engage in the buying and selling of property.

To help avoid criticism that the Division of Highways is engaged in the real estate business, the Auditor General recommends that the grantor be offered a choice of full or partial acquisition by the Division when it appears that the excess portion of the acquisition will be sold at public auction.

The stated policy of the Division is to return excess land to private ownership as soon as possible. However, in most cases efforts to dispose of excess parcels are not made until after completion of construction.

As of June 30, 1967 less than 25 percent of the value, and only 15 percent of the acreage, of the recorded excess land inventory was classified as available for sale. Average time period between acquisition and sale of excess land is approximately five years.

The value of the recorded excess land inventory is equal to from 20 to 25 percent of the annual expenditure for right of way, and this investment in excess land represents the utilization of a substantial amount of highway money for other than its intended use.

Historically, the Division of Highways has received slightly more from the sales of excess lands than the cost, which at present is the area allocation of the land

acquisition cost. However, this experience is based on an average holding period of approximately five years.

The questions lacking answers at present are as follows:

(1) How much reduction in excess land sales revenue would result if excess lands were sold shortly after acquisition, or at some other point in time before five years?

(2) Considering that needed private construction is deferred by delaying sales of excess lands, does increased revenue justify the delay?

In the meantime, while the Auditor General's recommendations are being evaluated, we believe that rural excess land not required for any specifically designated purpose should be classified as available for sale at time of acquisition.

A significant difference between rural and urban excess land is that a majority of the rural land is returned to the same land use, while a substantial part of the urban excess land is utilized for a different purpose after return to private ownership.

The absence of a stated policy setting forth criteria for holding excess parcels also appears to contribute to the accumulation of excess lands.

It was necessary in a few instances to repurchase property after it was sold as excess land, and therefore there is considerable pressure to hold on to all excess lands. Several approvals must be obtained before a parcel may be sold, and only little justification, if any, is needed to defer sale.

As a result, in highway district 8 (San Bernardino) on route 60, between Foothill Road and Interstate Route 10, there are 1,780 acres of excess land acquired between 1937 and 1961 along a distance of 5 miles.

In 1963, upon completion of construction, and again in 1967, the district right of way department was unsuccessful in obtaining approval to sell these parcels. The 1,780 acres are held because at some unspecified time in the future there may be a need to expand the existing four-lane narrow median highway, to a six-lane wide median highway.

Throughout much of this area existing fence lines are from 400 to 700 feet apart, which would probably accom-

modate any future expansion. However, under present practices 1,780 acres, some almost a mile from the existing highway, have been held indefinitely.

The Auditor General recommends that specific definitions of the circumstances justifying the holding of excess lands be provided, and procedures be adopted to ensure that only parcels meeting the criteria be held.

Considerable variation exists among highway districts in the procedure followed and the records maintained for excess lands. District 4 (San Francisco) has a small reported excess land inventory in relation to the amount of right of way acquired, and the highest percentage of excess land being offered for sale.

However, the small inventory and high percentage for sale are not the result of acquiring less excess lands, or of having a more active selling program.

Rather, this results from the district recording excess lands a considerable period, sometimes years, after the acquisition. At the five other districts reviewed excess lands are recorded at time of acquisition. As a consequence, the amount of excess lands acquired and the amount not available for sale are substantially higher than that reported by district 4.

Variations also exist in the form, content, degree of accuracy, and timeliness of excess land records. At district 11 (San Diego) some excess parcels have been held so long there is no longer a record of why the property has not been sold.

At district 3 (Marysville) several parcels which have been sold were still carried in the inventory records. In district 7 (Los Angeles) more than a year is sometimes required to obtain necessary approval to sell parcels. In district 4 (San Francisco) it frequently requires six months after the decision to sell a parcel to establish the minimum acceptable bid for public auction.

The Auditor General recommends that division-wide standards be established for the form and content of excess lands records, for the timeliness of actions regarding excess land management, and for the procedures to be followed.

Some property needed for right of way purposes is acquired by the Division of Highways in advance of the

construction time. Early acquisitions are made under the following conditions:

(1) Frequently during the period between announcement of a planned future improvement and acquisition of right of way, owners experience difficulty in selling property. The Division acquires property in advance as an accommodation to grantors under specific circumstances, e.g., grantor's poor health, retirement, loss of job, job transfer, etc.

(2) When there is a probability of the development of property needed for future highway construction, prompt acquisition is required to stop such development and the consequent increase in acquisition costs. Advance acquisition may be made from either the State Highway Fund, or the Highway Right of Way Acquisition Fund which was established for the purpose of making early acquisitions.

Counties and local revenue districts are affected by the acquisition of property for highways. Section 104.6 and 104.10 of the the Streets and Highways Code provide that 24 percent of specified rental receipts received by the Division from the rental of property acquired for right of way is to be paid to the counties.

For many advance acquisitions, the assessed valuation at time of acquisition and the removal from the tax rolls is based on the assumption the property will be developed to a higher usage. However, rent received by the Division, if any, will be for a temporary use and will be based on a lower value usage.

As a result, there are material differences between what counties and local revenue districts would have received in the form of taxes if advance acquisition had not been made, and payments of 24 percent of rental receipts.

Significant savings are realized by the Division of Highways under the advance acquisition program, while counties and local revenue districts bear the brunt of the decrease in tax base.

As a result, the Legislature may desire to consider an amendment to the Streets and Highways Code providing an in-lieu payment to counties from the State Highway

Fund which would not be limited to the collection of rentals.

For acquisitions made more than a specified period in advance of construction, i.e. two years, such legislation would provide that the counties would be paid an amount equal to property taxes at the current rate based on the assessed valuation at time of acquisition.

For advance acquisitions acquired through condemnation proceedings, possession is not usually taken prior to the settlement. During the interim period between filing of the suit and trial, which can be a period of years, the property owner remains in possession but is prevented from continuing with any development plans.

For property in process of being developed to a different usage, continued possession after development has been halted may be of little or no value to the owner.

The continuation of property tax, the absence of earnings on the investment, and the delay in receipt of reimbursement for development costs incurred may be regarded as a loss not considered in the judgment.

While there are not many such cases, the Legislature may wish to consider providing some relief to owners in advance acquisition condemnation suits.

Legislation which would permit the owner to petition for transfer of possession at any time after the condemnation suit is filed would provide the following benefits to owners in return for early transfer of possession:

(1) A condemnation deposit would be made which could be withdrawn by the owner

(2) Legal interest would start to accrue on date of transfer of possession

(3) Property taxes would be discontinued.

An alternative to the above would be to provide by legislation that a property owner in a condemnation suit may request within a specified period of time after the suit has been filed, e.g. 30 days, that the action be heard within one year. The court must then so schedule the trial, and no delays would be permitted.

At present, it is possible for a public agency to stop development of property needed for a future public improvement without having funds to acquire the property.

Upon presenting an offer which is not accepted, the governmental agency can file a condemnation suit and stop further development. If the property is not immediately needed, possession is not requested, and funds are not required.

By obtaining trial delays it is possible to defer any payment until the property is needed. Although both of the above suggestions for legislative consideration would prevent this practice, the latter suggestion would be more economical from the standpoint of the state.

While both proposals would accomplish the same ends, the first one would not provide public agencies with much lead time before the condemnation deposit was required. Under the second proposal, public agencies could have up to 11 months' notice before funds were required.

Also, under the second proposal public agencies would more frequently obtain the benefit of Section 1249, Code of Civil Procedure, which provides that if the trial occurs within one year after date of filing, the date for valuation will be the date the complaint and summons was filed.

The Division of Highways has replied to the Auditor General's Report on Review of Excess Lands. In its reply, the Division agreed to accept all recommendations contained in the report.

CHAPTER THREE
UNIVERSITY OF CALIFORNIA

REPORT ON FINANCIAL PRACTICES

In accordance with the provisions of Assembly Concurrent Resolution No. 22 adopted by the 1967 Legislature, the Joint Legislative Audit Committee entered into an agreement with the Joint Committee on Higher Education for an examination into several aspects of the financial practices of the University of California.

Due to a time factor and other problems, the Auditor General's examination did not constitute a full audit of the University system. Rather, the work consisted of a series of special studies made under the direction of the Joint Committee on Higher Education. The following subjects were studied:

1. Classification of income
2. Classification of expenditures
3. Analysis of instruction and departmental research expenditures
4. Analysis of organized research
5. Description of medical center operations
6. Auxiliary enterprises
7. Investment management.

In our opinion, the work completed at the University represents only the start of a full financial examination of the practices and structure of the system, and the Joint Committee is hopeful that this work can be continued at a later date.

The principal objective of the examination was to obtain information on the University's sources of funds and the uses of funds. The Auditor General found that adequate information is available on the sources of funds.

However, the Auditor General also found that the present accounting system and resulting financial reports do not adequately disclose the costs of operating the University, or the unit costs of the end products of the University such as units of instruction by level of instruction.

The accounting system is designed primarily to maintain accountability for custody of funds, and to assure compliance with the restrictions placed on use of funds. These restrictions include those resulting from use of state and federal funds, private contracts, grants and donations, housing and parking bonds, and restrictions imposed by the Regents.

The budgetary classification of proposed expenditures determines the accounting classifications, which in turn establish the pattern for financial reporting.

In order to disclose the financial affairs of the University in a more meaningful manner, program budgeting and cost accounting systems need to be designed and implemented.

The use of program budgets and cost accounting information would enable the Legislature and the Administration to make more informed financial decisions relating to fees, service charges at hospitals, contract costs, overhead recoveries, expansion of the University or other segments of higher education, specialization as to curriculum or research, and numerous other matters.

The analysis of instruction and departmental research, organized research, and the medical centers disclosed a need for some form of faculty and staff time reporting to serve as a basis for distribution of payroll costs to the programs, projects, services, or products benefited by the work performed.

Under the present system, all faculty salaries and expenses, except for extension and certain medical faculty, are charged to instruction and departmental research regardless of the activity benefited by the work performed.

The Auditor General recommends that a study be made to develop a system of faculty and staff time reporting for the reasonable allocation of payroll costs to programs or projects benefited by the work.

On certain research projects the sponsor, whether the federal government or a private contractor, requires that the University make a contribution toward the support of the project. The University's contribution usually is the faculty time and expenses.

This contribution by the University to research projects is accounted for as an instruction and departmental

research expenditure, which does not adequately disclose the contribution in budgets and financial reports.

The Auditor General recommends that the University's contribution to extramurally funded research projects be accounted for and reported separately from instruction and departmental research expenditure classifications.

Nonresident tuition rates set by the Regents are not based strictly on cost or a fixed percentage of cost. Based upon the University's calculations of average cost per students, the fees for the past three years were 29%, 44%, and 51% of cost for 1964–65, 1965–66, and 1966–67, respectively.

The Auditor General recommends that the feasibility of setting nonresident tuition rates at a percentage of cost be studied.

It has been recommended by the University's own auditors that staff benefits, amounting to more than $17 million for 1965–66, be charged to the same expenditure classifications charged with the salaries and wages upon which the staff benefits are based.

The Auditor General agrees with this recommendation, as it will improve financial reporting and serve as a beginning toward establishing cost accounting and program budgets.

Endowment funds, including unrestricted receipts classified by the Regents as endowment funds, increased 25% in the two-year period reviewed. The increase went from $165.8 million at June 30, 1965 to $207.8 million at June 30, 1967. Apparently, no policy has been established relative to the size of endowments a public institution may accumulate.

The Auditor General recommends that a study be made of the University's endowments to aid in establishing a policy regarding accumulation and use of endowment funds.

The primary measurement of investment performance used by the University is a weighted average rate of return on the average book value of investments.

This method is acceptable for reporting performance on short-term investments, but is not a realistic measurement of performance for long-term investments. For the year ended June 30, 1967 common stock dividends

represented a 7.07% return on book value, and a 3.26% return on market value.

The Auditor General recommends that the University report the rate of return on market value in order to fully disclose its investment performance.

Intercollegiate athletics are accounted for partly as an auxiliary enterprise, partly as an organized activity, partly under instruction and departmental research, and in a number of overhead expense accounts not allocated to the athletic program.

The expenditures are supported from state funds, student fees, and income from athletic events. Under the present system it is difficult to determine the cost of the intercollegiate athletic program, to what extent the intercollegiate athletic programs are self-supporting, and the amount of state funds used.

The Auditor General recommends that the full costs of intercollegiate athletics be accounted for and separately identified in financial reports.

We have summarized the sources and uses of funds for the year ended June 30, 1966 in the schedule which follows. The schedule reflects rough estimates of program costs by applying overhead to programs and by reallocation of expenditures. The expeditures are reallocated between programs based upon information discussed in the full report on allocation of instruction and departmental research, and organized research, to programs.

We do not claim that the schedule discloses final, accurate program costs or uses of funds, and we have included extension, hospitals and clinics in public service. Student fees allocated to public service are primarily extension fees.

ADJUSTED CURRENT FUND EXPENDITURES BY SOURCE OF FUNDS AND BY PROGRAM
YEAR ENDED JUNE 30, 1966
(Amounts in Thousands)

ADJUSTED CURRENT FUND EXPENDITURES BY SOURCE OF FUNDS AND BY PROGRAM
YEAR ENDED JUNE 30, 1966
(Amounts in Thousands)

Sources of funds	Instruction	Public service	Research	Special federal research	Student services	Student aid	Auxiliary enterprises	Total
State of California and other general funds	$133,861	$30,683	$47,131	$2,058	$6,022	$893	$2,152	$222,800
Student fees	4,420	14,843	*(89)	7	9,369	2	902	29,454
State agencies	178	508	2,041	2	--	85	21	2,835
United States of America	10,533	10,392	68,375	238,386	97	8,754	1,050	337,587
Endowment income	2,451	952	3,221	93	80	2,561	192	9,550
Gifts and private grants	1,158	2,993	5,312	20	21	1,491	215	11,210
Sales and services	303	831	329	7	3	73	39	1,585
Organized activities	149	26,596	150	7	2	24	130	27,058
Other sources	772	313	753	101	514	41	184	2,678
Auxiliary enterprises	32	*(2)	*(76)	1	--	315	21,929	22,199
Reserves	383	368	106	80	37	32	288	1,294
Total	$154,240	$88,477	$127,253	$240,762	$16,145	$14,271	$27,102	$668,250

* (Deduction).

REPORT ON THE ACQUISITION OF CERTAIN PROPERTY IN LA JOLLA BY THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

In accordance with a request by the Joint Legislative Audit Committee, the Auditor General reviewed the purchase of certain property in La Jolla, California by the Regents of the University.

The land in question covers 130 acres in a prime residential, single family, luxury estate with ocean frontage, a private track for exercising horses, stables, and a private beach. The estate is known as La Jolla Farms Properties, and homes at this location have been appraised at values ranging from $70,000 to $300,000.

At the time of the Auditor General's review, a total of 37 homeowners were living on the estate, and as part of the purchase agreement between the University of California and La Jolla Properties, Inc. these homeowners were required to give the University first right to purchase their homes should they choose to sell. An additional 20 owners of unimproved lots were covered by the same agreement.

The University has taken title to 34 subdivided unimproved lots, the private racetrack, stables, beach area, and two private homes. One private home with an appraised value of $300,000 has been designated as the residence of the Chancellor of the University of California at San Diego.

Available records indicate that the University paid $68,181 over the appraised value to obtain this property. With interest added, the cost of the residence will amount to $490,459.

The agreement between the University and La Jolla Properties, Inc. established a purchase price of $2,825,155 for the 130 acres involved. This amount is to be paid over a ten-year period in equal monthly payments at an annual interest rate of 6%. Prepayment of interest is not permitted under the terms of the purchase agreement, and the cost of purchase therefore will be $3,722,199.

A guarantee has been given by the University that interest paid shall be tax-free to the seller. Interest costs over the ten-year period will amount to $897,044. Should the U.S. Internal Revenue Service rule that this interest

is taxable, additional payments of up to $1,618,692 could be required.

The property reviewed is directly to the West of the San Diego campus of the University, and fronts on the Pacific Ocean. The purchase agreements state that the property is needed by the Regents of the University for use in conjunction with the development of the San Diego campus, and for the general purposes of the University.

The agreements also state that the purchase was undertaken as an alternative to the Regents' right of condemnation.

In response to the Auditor General's inquiries, Dr. Harry R. Wellman informed us that the University had not yet developed a master plan for the area. However, informal records indicate that the properties may be used for housing University officials and faculty.

Later, the Regents declared their intent to dispose of 34 subdivided lots in 1977, or upon release from trust. Due to provisions prohibiting prepayment of principal and requiring deposits to free the parcels from trust, the Regents' costs (with interest added but excluding costs of any contingent liabilities) will average $40,909 per lot. The lots had an appraised value of $25,000 each when purchased.

Without question, the Regents have full authority under the State Constitution to purchase or dispose of land in the best interests of the University.

However, certain factors pertinent to this particular land acquisition made it necessary for the Joint Committee to bring the matter to the attention of the Legislature. The factors are summarized as follows:

(1) Without the present purchase, the University had available in the San Diego area sufficient reserve land to accommodate its projected growth to 27,000 students by the year 2000. In addition, the University owns 507 acres of former Camp Elliot land just six miles East of the San Diego campus. No plans have been made for the future use of the Camp Elliot land, and the availability of this and other land in the vicinity of the San Diego campus does not appear to have been considered.

(2) If the purchase of the 130 acres had been financed through state bonds at the then current interest rate of 3.75% the saving in interest costs alone would approximate $419,588.

(3) Of the seven parcels of land contained in the La Jolla Farms purchase, appraisal values are available for five parcels. These figures show that, exclusive of interest costs, the University paid $500,000 above the appraised value for the five parcels.

(4) Dependent upon a ruling by the U.S. Internal Revenue Service, the University has assumed an additional obligation which could result in the purchase costs being increased by as much as $1,618,692.

(5) Homeowners and owners of lots on the estate cannot sell their property freely. Promises made to these buyers of access to the private beach, and membership in the bridle club with accompanying stable facilities, bridle trails, etc. are all revocable by the University.

(6) The La Jolla Farms acquisition deprived the County of San Diego of $32,452 in property taxes in 1967. If the property was fully developed by private owners the County property tax at current rates would be approximately $1,775,000 over the ten-year period of the purchase agreement.

The Auditor General's report on the purchase of the La Jolla Farms properties was released in January 1968. No official response to the report was received from the University of California.

However, a letter dated April 26, 1968 was received from a member of the University Board of Regents taking issue with the report and setting forth the University's justifications for the purchase.

Following an evaluation of the April letter we found no reason to change any of the material facts as reported to the Legislature.

CHAPTER FOUR

CALIFORNIA STATE COLLEGES

STATE COLLEGE AUXILIARY ORGANIZATIONS

The California State Colleges' auxiliary organizations and foundations are incorporated as non-profit corporations pursuant to the general non-profit corporation law of California.

Board members consist of faculty and administrative personnel of the colleges, plus individuals from the surrounding communities.

The foundations as organized and operated in past years have been independent of almost any control by the State of California, the Trustees of the California State Colleges, or the various control agencies of the executive branch of government.

As such, they have been exempt from fiscal and management control over their budgets, contracts, personnel, and other operating functions.

The original purpose of the auxiliary organizations as expressed in Title 5, California Administrative Code, Section 4201, is quoted as follows:

"All activities necessary to the educational program of a state college, including service functions, are an integral part of the college program and should be so operated.

"Because, however, self-government in student affairs is desirable and because some activities cannot be operated effectively and without undue difficulty under the usual governmental budgetary, purchasing, and other fiscal controls, activities may be undertaken by an auxiliary organization in order, in the former instance, to foster self-government in student affairs and, in the latter instance, to provide effective operation and to eliminate the undue difficulty which would otherwise arise under such controls."

Although the purposes of auxiliary organizations have not changed considerably from those expressed in the California Administrative Code, the methods of operation have changed. Also, the size of the operations and

the number of activities conduced through auxiliary organizations have increased.

As reported in the Auditor General's review, the Foundation at Fullerton State College is in a difficult financial situation. It is unlikely that such a situation would have occurred had the State College Trustees been involved in reviewing and approving the contracts that caused the financial problems.

However, the traditional role of the Trustees in administering college foundations has been only advisory, and assistance was not given until a foundation requested it.

The Chancellor of the State College System has not been required to participate actively in the administration of auxiliary organizations. Section 24054 of the Education Code states in part:

"The operation of state college auxiliary organizations shall be conducted in conformity with regulations established by the Trustees and approved by the Director of Finance."

The only formal regulations established by the Trustees are those published in the California Administrative Code, Title 5. In past years, no specific rules and regulations had been established relative to off-campus operations, or the incurring of indebtedness to finance such operations.

Section 42406 of Title 5, California Administrative Code, states: "The Chancellor shall prepare and keep current a list of organizations in good standing. All auxiliary organizations in compliance with rules and regulations of the Trustees, and provisions made thereunder, shall be included on the list.

"The Chancellor may make such provisions consistent with law as may in his judgment be appropriate with respect to further cooperation and agreements between any State College and an auxiliary organization not included on the said list."

Although the above code section permits the Chancellor's office to set rules and regulations for the conduct of auxiliary organizations, in actual practice the auxiliary organizations in past years have operated with few restrictions except when dealing with other state agencies.

For example, until June 1966 there was no policy regarding auxiliary organizations' involvement in off-campus housing developments. The policy when adopted required only that any such plans be approved by the Chancellor's office.

This requirement did not prevent the administration at Sacramento State College from forming a separate corporation in 1967, and entering into an agreement for the development of a $4 million off-campus housing project without the Chancellor's approval.

The role of the Chancellor's office, up until the time of this review, had been to prescribe remedies in an attempt to correct undesirable situations, rather than to set meaningful guidelines or engage in management review of auxiliary organizations.

The financial problems at Fullerton State College prompted the Chancellor to stop any future off-campus developments, rather than establish guidelines that auxiliary organizations could follow.

Education Code Section 24054 states in part: "The Department of Finance, or a public accountant selected by the organizations or funds hereafter described and in accordance with procedures prescribed by the Department of Finance, shall audit any and all state college auxiliary funds and funds of organizations using the name of the State, state college, or representing an official relationship with the college, or funds in which college officials participate as directors as part of their official positions, whether such funds be maintained on campus or not."

Auxiliary organizations of the California State Colleges are audited by a public accountant or the Department of Finance on an annual basis. Where a public accountant performs the audit, the Department of Finance makes an additional review of the auxiliary organizations of the college.

CALIFORNIA STATE COLLEGE AT FULLERTON FOUNDATION

The financial difficulties experienced by the Fullerton College Foundation resulted from the operations of off-campus housing, food service, and a bookstore. The balances of the foundation's current liabilities at Jan-

uary 31, 1968, by service activity, are shown in the following Table 1.

Table 1

CALIFORNIA STATE COLLEGE AT FULLERTON FOUNDATION CURRENT LIABILITIES, BY SERVICE ACTIVITY JANUARY 31, 1968

Service Activity	Amount
Bookstore	$463,274
Housing	431,292
Food Service	83,000
Other	43,000
Total	$1,020,566

The foundation's cash balance as of January 31, 1968 was not reported by the foundation. The nearest date to January 31, 1968 that the foundation reported a balance was on February 20, 1968. The balance reported at that time was $200,000. The accounts receivable balance was insignificant at that date.

The Auditor General's investigation was directed at determining how the financial difficulties at Fullerton occurred. The findings indicate that operating losses experienced by the bookstore and housing operations, subsequent to moving off campus, resulted in the accumulation of liabilities and the depletion of cash and other current assets which had been accumulated in the years prior to moving off campus. A brief history of the movement off campus follows.

Off-Campus Operations

The first foundation-operated housing facilities were built off campus in 1963. The Trustees of the California State Colleges had anticipated providing on-campus housing for the college. However, the president of the college requested that Fullerton be excluded from the trustees' plans so that the construction of off-campus housing could proceed. The request was granted and the off-campus housing was constructed.

Food service operations are a physical part of the off-campus housing. The only food service provided by the foundation on campus is a small snack bar.

Bookstore operations moved off campus in 1966 after being operated on campus since the college opened in 1959.

The results of operations for the three service activities for the fiscal years 1961 through 1967 are shown in Table 2 which follows.

Table 2

CALIFORNIA STATE COLLEGE AT FULLERTON FOUNDATION
NET INCOME (LOSS) ON AUXILIARY SERVICE ACTIVITIES
FISCAL YEARS JULY 1, 1961 THROUGH JUNE 30, 1967

Fiscal Year	Total	Bookstore	Housing	Food Service
1961-62	$7,968	$5,724		$2,244
1962-63	6,105	5,946		159
1963-64	(21,767)	12,049	$(16,820)	(16,996)
1964-65	(29,388)	20,374	(56,220)	6,458
1965-66	(71,882)	42,962	(121,200)	6,356
1966-67	(191,582)	(32,446)	(148,860)	(10,276)
Total	$(300,546)	$54,609	$(343,100)	$(12,055)

It should be noted that the bookstore made a profit until it was moved off campus in 1966. The off-campus housing operations from the start of operations in 1963–64 incurred increasing losses each year.

Bookstore Operations

Comparison of the bookstore income statements for the 1966–67 fiscal year (off campus) with the 1965–66 fiscal year (on campus) discloses large increases in the expenses subsequent to moving off campus. Comparative income statements are shown in Table 3 which follows.

Table 3

CALIFORNIA STATE COLLEGE AT FULLERTON FOUNDATION COMPARATIVE INCOME STATEMENTS, BOOKSTORE OPERATIONS FOR THE 1966–67 AND 1965–66 FISCAL YEARS

	1966–67 Fiscal Year (Off Campus)	1965–66 Fiscal Year (On Campus)	Increase (Decrease) Over 1965–66 Fiscal Year	
			Amount	Percent
Sales	$639,007	$436,751	$202,256	46
Cost of sales	507,840	337,326	170,514	51
Gross profit on sales	131,167	99,425	31,742	32
Expenses:				
Rent	25,500	295	25,205	8,544
Salaries and wages	99,497	48,176	51,321	106
Depreciation	9,859	587	9,272	1,580
Operating expenses	33,867	5,649	28,218	500
Foundation overhead	--	3,624	(3,624)	(100)
Total expenses	168,723	58,331	110,392	189
Net income (loss) from operations	(37,556)	41,094	(78,650)	(191)
Other income	5,110	1,868	3,242	174
Net income (loss)	$(32,446)	$42,962	$(75,408)	(176)

The bookstore's increased expenses were a direct result of moving the bookstore off campus. Rent expense was minimal while on campus. The minimum rent off campus for the 1967–68 year was $49,818 and will increase to $57,918 per year in the following years. The increase in salaries and wages was caused by the addition of new employees needed for the larger bookstore and an increase in the hours of operation.

Depreciation expense was up $9,272 due to the acquisition of $76,000 in leasehold improvements and $36,000 in furniture and fixtures under a lease purchase agreement.

Operating expenses increased $28,218 because advertising, insurance, utilities, and janitorial expenses were not incurred or were minimal while the bookstore operated on campus.

The increase in expenses of $110,392 more than offset the relatively small increases of $31,742 in gross profit and $3,242 in other income, resulting in a decrease in net income of $75,408 for 1966–67 as compared with the preceding year's operations. Operating results for the six months ended December 31, 1967 indicate that a loss of more than the 1966–67 loss of $32,446 will result from the 1967–68 fiscal year operations.

It appears that the financial situation will not improve in the immediate future for the bookstore off-campus operations. The operating expenses cannot be reduced substantially without a reduction in services, which could reduce the volume sales. The twenty-five year lease agreement for the bookstore premises provides for a rental based on a percentage of sales in addition to the minimum rental. Therefore, an increase in sales would increase the rent expense. Because of these factors it appears that the only solution to the financial problem would involve moving the bookstore back on campus into a less expensive structure.

Housing Operations

The financial situation for the off-campus housing is similar to that experienced by the off-campus bookstore. The operating expenses incurred by the off-campus housing are so high that losses are impossible to avoid.

A comparison of off-campus with on-campus costs at Fullerton is not possible because there are no on-campus housing facilities at Fullerton. A comparison of costs, shown as a percentage of the related revenue, for on-campus housing provided at eleven other California State Colleges is shown in Table 4.

Table 4

COMPARISON OF HOUSING OPERATIONS SHOWN AS PERCENTAGE OF REVENUE—CALIFORNIA STATE COLLEGE AT FULLERTON FOUNDATION, OFF CAMPUS, AND ELEVEN OTHER CALIFORNIA STATE COLLEGES, ON CAMPUS YEAR ENDED JUNE 30, 1967

	Fullerton College	Eleven Other Colleges	Fullerton Over (Under) Other Colleges
Revenue	100.0%	100.0%	
Operating expenses:			
Labor	24.5%	39.7%	(15.2)%
Utilities	14.8	7.9	6.9
Other	28.3	16.5	11.8
Debt service	85.1	21.8	63.3
Total	152.7	85.9	66.8
Net income (loss)	(52.7)%	14.1%	66.8%

As shown in Table 4, operating costs for housing at Fullerton are 152.7% of the revenue, while the same costs for the eleven other state colleges are 85.9% of revenue, a difference of 66.8%.

The debt service percentage is 63.3% higher for Fullerton than for the eleven other colleges. Two factors account for this difference:

(1) The facilities cost at Fullerton, under the terms of the lease-purchase agreement, are higher than the facilities cost of the eleven other state colleges.

(2) The facilities cost at Fullerton are being financed over twenty-five years as compared with thirty years for the other state colleges.

The "other" expense classification at Fullerton is is higher because it includes expenses not incurred by the other state colleges, the main ones being property taxes and insurance. Another reason is that the facilities at Fullerton are experiencing higher repair and maintenance costs than those at the other state colleges.

Utility expense is higher at Fullerton due to a centralized system of heating and cooling designed to service many buildings in the area. The proration of costs to Fullerton under this method results in higher costs than those experienced at the other state college housing facilities.

AUXILIARY ORGANIZATIONS AT SACRAMENTO STATE COLLEGE

Sacramento State College has four auxiliary organizations conducting college-related activities. The names of the organizations are:

Sacramento State College Foundation
Hornet Foundation, Inc.
Associated Students of Sacramento State College
SSC College Town

Each organization is separate from the others and carries on different activities. However, control over all of the organizations, except the Associated Students of Sacramento State College, is with the President of the college. This control resides in the President's power to appoint all board members with the President, or one of his administrators, being the board chairman.

A description of each organization, its activities, board members, management, source of revenue, and other related data follows.

Sacramento State College Foundation

Sacramento State College Foundation is incorporated as a non-profit corporation with eleven board members. One member is from the college administration, two are from the faculty, and eight are from the community at large.

Activities supported by the foundation are as follows:

Research projects	Scholarships
Professional travel	Marine laboratory
President's housing	Conferences
Guest lecturers	President's discretionary
Public relations	

Funds to support the foundation's activities come from federally-sponsored contracts and grants, investment income, private gifts and bequests, and occasional sales of obsolete equipment items.

The management and administration of the foundation are provided by a full-time manager and a full-time controller. This contrasts with most of the other California state colleges' plan of management and administration where the college business manager functions as a foundation manager and controller. However, the trend will be toward separate management because of the growth of the colleges and the attendant growth in foundation activities.

In addition to the usual activities of the foundation, it is currently financially involved in an off-campus housing development to the extent of paying salaries and operating expenses of the project until operations produce income. The development will be owned and operated by SSC College Town, another non-profit corporation formed by Sacramento State College administrative officials. An application has been filed with the Federal Housing Administration for a low interest rate loan to SSC College Town. If the loan is not approved, the foundation could be liable for the property taxes in addition to the operating expenses mentioned above.

Hornet Foundation, Inc.

Hornet Foundation, Inc. is a non-profit corporation with nine board members. One member is from the college administration, one is from the faculty, five are students, and two are from the community at large.

Activities consist of a bookstore and food services for students and faculty. The operations are self-supporting.

Management of the bookstore is provided by full-time personnel who are employees of Hornet Foundation. Food service is provided through a contract with a private catering firm. Employees and food are provided by the catering firm, with the college providing the facilities and equipment. Accounting for the bookstore and food service is provided by the Sacramento State College Foundation.

Associated Students of Sacramento State College

The Associated Students of Sacramento State College is a non-profit corporation with 15 board members. One member is from the college administration, one is from the faculty, and thirteen are students.

Activities conducted by the Associated Students of Sacramento State College include the following:

Athletics	Academic affairs
College Union	Community affairs
Cultural programs	Elections
Fine arts	Orientation
Publications	Social

Activities are supported by a compulsory student membership fee of $10.00 for each semester and admission charges for athletic events, social activities, and other programs.

Associated Students of Sacramento State College employs a full-time manager who is responsible for the management and administration of all activities. The manager, for administrative purposes, is responsible to the college business manager.

S S C College Town

S S C College Town was incorporated as a non-profit corporation. The governing board consists of eight members. Four are college administrators and four are from the community at large.

The corporation was formed for the purpose of acquiring title to, and operating, an off-campus housing development for married students. It is anticipated that the housing will be transferred to Sacramento State College Foundation upon the retirement of outstanding indebtedness. The final payment on presently proposed financing is due July 1, 2009. Future development may require additional loans with a later maturity date.

S S C College Town is the first phase of a five-phase, $23 million, 75-acre complex planned and being developed by Campus Facilities Development Corporation, a Delaware corporation. The development will provide a self-contained community for Sacramento State College students and faculty.

S S C College Town has applied for a 3% Federal Housing Administration loan under the F H A 221 (d) (3) program. This program is basically one which guarantees loans for the construction of low-income housing. To qualify for the loan, specific F H A regulations must

be observed. The following list of F H A regulations are considered the major ones:

The operating budget must be approved by F H A.
A maximum rental rate is set by F H A.
Occupancy is restricted to low-income married students.

Construction costs must be certified to by a licensed public accountant.

The construction of S S C College Town has been financed by a $4 million 6% loan from United California Bank. Provided that F H A approves the completed project and guarantees the loan, the interest rate will drop to 3%.

The physical facilities of S S C College Town are complete, and some reservations have been taken for the 1968 fall semester. Final acceptance of the project has been held up due to certain operating expenses in the S S C College Town budget which F H A has not approved. Also, the Sacramento County Assessor has informed S S C College Town officials that the housing development is not tax-exempt. Both of these factors could raise the required rental rate above the present rates under consideration by F H A.

The administration of S S C College Town will remain with the President of Sacramento State College. Accounting and other clerical services will be provided by the Sacramento State College Foundation on a reimbursable basis. S S C College Town's proposed operating budget includes $10,617 for the services to be rendered by the foundation.

The following comments were included in the Department of Finance audit report on S S C College Town for the year ended June 30, 1969.

CONTRACTS WITH PRIVATE CONSULTANTS (TSC-67, 8/28/69)

In early 1968 we reported on the off-campus housing project at Sacramento State College (S S C-87). In that letter we discussed the development of S S C College Town from master planning to Phase I construction. We recommended that close surveillance and control be exercised over colleges involved in off-campus development projects.

Action taken by the State College Board of Trustees outlined policy which should control the operational

activities of off-campus developments. However, there is still an important matter which should be resolved. Definitive policy is needed to limit the extent that private consultants can subsequently benefit from information and associations developed in their surveys. The systemwide student housing survey points out this need.

Mr. Warren Rovetch of the Campus Facilities Associates, under contract with the Chancellor's office, made a systemwide survey of the feasibility of on-campus housing. The report was issued in November 1964 for which he was paid.

Subsequently, Mr. Rovetch acting as the president of Campus Facilities Development Corporation (CFDC) began negotiations with Sacramento State College officials on planning and the development of College Town. CFDC purchased about 75 acres of land adjacent to the college for the site of the housing project. In February 1966, the Sacramento State College Foundation entered into an agreement with CFDC for development of Phase I (282 rental units) of the master plan. The agreement provides a 15% fee on land costs and 10% on construction costs. The cost of the entire project is estimated at around $25 million.

The costs of Phase I amounted to over $4 million. Apartments were open for occupancy in June 1968. The $4.1 million mortgage was purchased by the Government National Mortgage Association on April 1, 1969 at 3% interest for 40 years, as originally contemplated.

The systemwide survey on campus housing made by Warren Rovetch provided him with a special opportunity for developing projects. Sacramento and Chico State Colleges are two examples. Whether or not this should have been restricted in his original survey contract is the question we raise.

We recommend that the Chancellor's office develop an overall policy as to the extent that private planners, architects, educators, food experts, etc., who are hired to make systemwide or individual college surveys, can subsequently benefit from information and associations developed in their surveys. This policy should be made a part of written agreements with consultants hired to develop plans and to make surveys.

Other problem areas investigated at Sacramento State College involving the use of Auxiliary Organization's funds were discussed in audit reports issued by the Auditor General and by the Department of Finance in recent months. The major problems relate to consulting and construction contracts.

SERVOMATION CONTRACT

Servomation was granted on January 3, 1967 a four-year food service consulting contract by the former president of the college without competitive bids. The contract was terminated after a 90-day notice at July 31, 1969. The contract provided for services of two full-time and one half-time consultants. The consulting fee was set at a percentage of gross sales which is quoted from the contract as follows:

> "SERVOMATION'S consulting fee will be based on a percentage of gross sales including revenue received as commissions from vending sales (excluding those commissions from sales in the Residence Halls), and will be payable monthly within ten days after completion of the monthly financial statements and will be computed as follows:

Annual Gross Sales				Consultant Fee
Over	$600,000.00	but less than	$800,000.00	10.20%
Over	800,000.00	but less than	900,000.00	10.00%
Over	900,000.00	but less than	1,000,000.00	9.80%
Over	1,000,000.00	but less than	1,100,000.00	9.60%
Over	1,100,000.00	but less than	1,200,000.00	9.40%

The Auditor General's report took exception to payments on gross sales of less than $600,000. Servomation was paid $143,659 for sales from January 1967 through January 1969. No payments have been made on sales from February through July 1969 for which fees of $30,676 have been accrued.

JOHN R. CARLSON ASSOCIATES, LTD.—CONTRACT

John R. Carlson Associates, Ltd. of Carbondale, Colorado was paid $9,487 under an agreement dated February 1, 1967 for design and engineering of food service

facilities at Sacramento State College. A $5,000 retainer was paid January 13, 1967, 19 days before the agreement was signed. The agreement was signed as of February 1, 1967 by the foundation executive director who, according to the records, was not employed as such until March 1, 1969. In July 1969 the foundation office decided that $4,296 should be returned and has billed John R. Carlson Associates. As of a recent date, the $4,296 had not been received.

AL CAL CONSTRUCTION COMPANY

Contracts were awarded to the Al Cal Construction Company for the construction of bleachers and the relocation of old bleachers. Al Cal was not one of the original bidders on the construction project, but was awarded the contract for $44,313 on a proposal of $41,613 made at a later date. No bids were called for on the contract for $8,750 for the moving of the bleachers. Al Cal was paid $54,352, which was $12,739 more than the original proposal and $1,289 more than the total of the two contracts.

BENJAMIN C. WILLIS EDUCATIONAL SERVICES, INC.

The consulting firm of Benjamin C. Willis Educational Services, Inc. was paid $7,950 between May 1967 and July 1968. A contract without competitive bids was let for $4,000 on January 22, 1968. Payments of $3,950 prior to the contract date were not covered by the contract. Based on interviews with members of a Curriculum Development Committee of the Department of Elementary Education at Sacramento State College, it was concluded that no measurable services or value was provided to that committee by the consultant.

The Chancellor's Office of the California State Colleges has supplied the Sacramento County District Attorney information on matters discussed in the audit reports on Sacramento State College Auxiliary Enterprises.

ASSOCIATED STUDENTS OF SAN FRANCISCO STATE COLLEGE

The Audit Committee held a meeting in February 1969 when it became aware of an alleged misuse of funds of the Associated Students of San Francisco State College. The Committee agreed to assist the Attorney General's

office in its investigation of the allegations. The funds were placed into receivership by the court, and a limited audit was made for the receiver by a firm of Certified Public Accountants. The CPA's have not been able to express an unqualified opinion on the financial statements of Associated Students since September 1, 1967.

The Attorney General's investigation is still in process at this time.

AUXILIARY ORGANIZATIONS OF STANISLAUS STATE COLLEGE

A Department of Finance audit report on the auxiliary organizations at Stanislaus State College disclosed a cash shortage of $10,665.34. The bookstore commercial account was short $7,491.52 and the foundation general fund account was short $3,173.82. These missing funds were repaid. The District Attorney of Stanislaus County was notified of the shortages.

AUXILIARY ORGANIZATIONS OF SAN FERNANDO VALLEY STATE COLLEGE

A Department of Finance audit report on the auxiliary organizations at San Fernando Valley State College disclosed a $3,389 cash shortage. Four bank deposits of the drama department amounting to $3,276 and one business office deposit for $113 were missing and unaccounted for.

LEGISLATION

Legislation to improve upon the management and control of State College Auxiliary Enterprises' funds was enacted during the 1969 session of the Legislature.

The Joint Legislative Audit Committee combined three of its bills with SB 19 (Harmer) that covered some of the same subject matter.

An urgency clause was added to SB 19 on the recommendation of the chairman of the Audit Committee. The urgency clause helped the college administrators in implementing the needed changes prior to the start of the new school year.

Senate Bill 19, 1969 Session, provides for specific improvements to be made in the management and accounting for state college auxiliary organization funds.

The president of each college is responsible for ascertaining that all expenditures are in accordance with the policies of the Trustees. He is responsible for the propriety of all expenditures and the integrity of financial reporting.

The chief fiscal officer of each college is now the custodian of student organization funds. Annual audits by a certified public accountant are required along with publication and wide distribution of the audit reports.

By June 30, 1970 the auxiliary organizations are required to adopt standard accounting and reporting systemwide, establish standards relative to adequate working capital, assure that transactions are within the educational mission of the state colleges, and develop policies for the use of funds obtained as overhead allowances.

Commercial services, such as food service or book stores, are required to be self-supporting. Any surplus funds from these services may be used for purposes consistent with regulations of the Trustees.

REVIEW OF ADMISSIONS POLICIES AND ADMINISTRATIVE PROCEDURES

We are in process of reviewing admissions policies and procedures within the entire State College system. This review is being made at the request of the Joint Committee because of limitation of enrollments for the 1970 spring semester and the rejection of applicants for admission to a number of colleges.

Based on our review to date at Sacramento State College, we have prepared the accompanying progress report and the following recommendations:

RECOMMENDATIONS

1. The decision to limit enrollments, made by a committee at Sacramento State College, be re-examined by the Chancellor's office and alternatives presented to the Trustees of the State Colleges for their review and for their recommendations to the Governor and the Legislature.
2. Classroom, laboratory, faculty office, and other space utilization reports be prepared early each semester showing:

   Number of rooms and hours used

   Number of stations and hours used

Square footage and maximum number of stations possible.

3. Space utilization standards and formulas for capital outlay budgeting be re-examined.
4. Faculty staffing formulas and budgeting of non-teaching positions be re-examined.
5. Increased productivity of faculty be encouraged through pay incentives and the development of innovative productivity programs through research and pilot studies.
6. Studies be made of ways to assist students to complete their college careers faster, such as through the following:
   - —Improved counseling
   - —More flexible degree requirements
   - —More scheduling of late afternoon and evening classes
   - —Expansion of the sources and number of credits a student may obtain for:

     Individual study
     Work experience
     Cultural and social experiences
     Other educationally valuable activities
7. Consideration be given to renting excess space in late afternoon and evening hours to local junior colleges.

PROGRESS REPORT

LIMITATION OF ENROLLMENT

On September 26, 1969 the Sacramento State College enrollment committee voted to control (limit) enrollment at 10,800 FTE (full time equivalent—15 units) students for the 1970 spring semester. The 1969–70 budget for the college is based on 11,000 FTE students. As of September 20, 1969 the fall enrollment was reported as 11,093 FTE students. The enrollment committee is composed of 27 members from top administrators of the college, deans of each school, the chairman of the Academic Senate, other committee chairmen, and the student body president.

The enrollment committee allocated the 10,800 FTE students as follows:

Category		FTE Students
Continuing students		10,050
New students:		
Priority promised to fall 1969 qualified applicants who were turned away		380
Other priorities:		
Educational opportunity program	28	
Special high school students	5	
Air Force Institute of Technology	6	39
Remainder:		
Masters and teaching credential candidates	66	
Upper division transfers	199	
Lower division	66	331
Total		10,800

Spring 1970 applications for admissions were accepted on October 1, 1969. Those received in the mail up to September 26, 1969 were returned with a letter instructing the applicant to apply on October 1, 1969. Those received by mail on September 27, 1969 through October 1, 1969 were kept by the college for processing along with those received by hand on October 1, 1969 at the college. All applications received at the college after October 1, 1969 were returned with a letter stating that SSC spring 1970 admissions were closed. The letter included a list of state colleges with openings as of October 3, 1969. A copy of the letter follows.

SACRAMENTO STATE COLLEGE
Sacramento, California 95819

Dear Applicant:

Enclosed is your application for admission to the 1970 Spring semester. Space enrollment quotas have been met and admission to the Spring semester is closed. If you are transferring from a California junior college your name and address have been noted on a waiting list and you will be notified immediately if we can admit you for Spring. This waiting list is valid for Spring 1970 only. Students must re-apply for the Fall 1970 semester and may do so beginning January 1, 1970.

Your application fee, if you were required to pay the fee, is enclosed either in the form of your returned check or money order or a check from the College if you paid the fee with cash.

We regret that you and other applicants cannot be admitted to Sacramento State. Please be assured we are committed to enrolling as many qualified students as we possibly can. You may wish to apply to another State College for the Spring. The colleges and their categories listed below and not marked Closed (C) have indicated they are currently accepting applications.

This application form is being used only by Chico State and Sacramento State for the Spring semester. The other colleges use their own forms and you should write them for their application form and instructions. All State Colleges will use the common form beginning with the Fall 1970 semester. The filing period for Fall 1970 begins January 1, 1970.

COLLEGES AND CATEGORIES OF APPLICANTS

(where openings exist effective 1:00 p.m., Friday, October 3)

	First time Fresh.	Transfer				
		FR	SO	JR	SR	GRAD
Chico	C	C	C	C	C	*
Fresno	--	--	--	--	--	--
Hayward	C	C	--	--	--	--
Humboldt	C	C	C	C	C	C
San Francisco	C	C	C	C	C	*
San Jose	C	C	C	C	C	C
Sonoma	C	C	C	C	C	C
Stanislaus	--	--	--	--	--	--
Dominguez Hills	C	C	C	C	C	C
Fullerton	--	--	--	--	--	--
Long Beach	--	--	--	--	--	--
Los Angeles	--	--	--	--	--	--
Pomona	--	--	--	--	--	--
San Bernardino	--	--	--	--	--	--
San Diego	--	--	--	--	--	--
San Fernando	C	C	C	C	C	C
San Luis Obispo	C	C	C	C	C	C

* classified only

Sincerely yours,

RICHARD J. WARREN
Admissions Officer

New applications for the 1970 Spring semester accepted by the college were grouped as follows:

Junior college transfers	1,527
Masters and teaching credential candidates	526
Lower division	583
Total applicants	2,636

An estimated 200 applications arrived at the college after October 1 and were returned to the applicants.

Based on the enrollment committee recommendations and the experience ratio of the number of students to each FTE, the following numbers of applications for admission within the 331 FTE limit were accepted and the remainder rejected.

Category	FTE Limits	Applications Accepted	Applications Rejected
Junior college transfers	199	275	1,252
Masters and teaching credential candidates	66	150	376
Lower division	66	90	493
Total	331	515	2,121

Random numbers were assigned to all applications in each category. Applications were accepted in numerical sequence up to the limit for each category. Waiting lists were prepared for rejected applications of junior college transfers and only 100 of the masters and teaching credential candidates. No waiting list was established for lower division applicants.

Some of the applicants selected may not be qualified for admission, may have been accepted at other colleges, or may have made other plans; therefore, it is probable that some of the applicants on the waiting list could be admitted.

The $10 application fee will be kept by the college on only those applications that are accepted. All other application fees have been returned to the applicants.

There is no centralized processing of state college applications for admission. Many students file applications at more than one state college and could be accepted at more than one college. This is an inconvenience for the applicants and a waste of college administrative funds in the handling of several applications for one student. Under the present system it is not possible to readily determine how many applicants are turned away from the college of their first choice or from the system altogether.

Most of the rejected applicants on the waiting lists show addresses that are within commuting distance of Sacramento State College. Only those applicants who can afford to live away from home could attend another college such as Stanislaus or Fresno.

The rejection of lower division students shifts the burden of educating these students to the junior colleges and the local taxpayers. Junior colleges in the Sacramento area are crowded. New construction for the Los Rios Junior College District is being financed by notes held by the contractors in anticipation of a future tax increase or sale of bonds.

SPACE AVAILABILITY AND UTILIZATION

Full utilization of the present classroom and laboratory space at Sacramento State College could accommodate double the present 11,000 budgeted FTE students. The utilization of space other than classrooms and laboratories needs to be reported and studied further. These other space requirements include the following:

- Faculty and administrative offices
- Libraries
- Parking
- Food service
- Housing

The college staff prepared a report as of July 1969 on the number of rooms and optimum student stations (seats, desks, tables, etc.). The actual number of stations in these rooms is about 10 percent higher. The maximum number of stations possible was not reported.

A summary of the July report follows:

	Rooms	Optimum Stations	Stations Per Room
Lecture	96	4,360	45.4
Seminar	18	369	20.5
Laboratories:			
Upper division	65	1,431	22.0
Lower division	37	726	19.6
Research	17	66	3.9
Self instruction	24	113	4.7
Total		7,065	

The college is in session from 8 a.m. to 10 p.m. on Monday, Wednesday, and Friday and from 7:30 a.m. to 10 p.m. on Tuesday and Thursday.

Full utilization of all stations between 8 a.m. and 5 p.m. five days a week for 45 hours would accommodate the following FTE students:

	Stations	Station Hours	FTE Students
Lecture rooms	4,360	196,200	13,080
Seminar rooms	369	16,605	1,107
Laboratories:			
Upper division	1,431	64,395	2,146
Lower division	726	32,670	1,089
Research	66	2,970	99
Self instruction	113	5,085	169
Total			17,690

The above calculations are based on 15 hours of lecture and seminar equaling one FTE and 30 hours of laboratory time equaling one FTE.

Fifty percent utilization of the same space during the evening from 5 p.m. to 10 p.m. five nights a week for 25 hours would accommodate an additional 4,914, for a total capacity of 22,604 FTE students.

The excess space at state colleges is attributable to capital outlay standards used in budgeting. These standards are:

Classrooms and seminar rooms—
34 hours per week at 66 percent of capacity

Lower division laboratories—
25 hours per week at 85 percent of capacity

Upper division laboratories—
20 hours per week at 80 percent of capacity

Classrooms and seminar rooms are considered fully utilized within the standard when in fact they are used 49.5 percent of the maximum utilization on the 45 hour week:

34 hours divided by 45 hours equals 75 percent
.75 times 66 equals 49.5 percent

Standards for lower and upper division laboratories are set at 47.2 and 35.6 percent of maximum utilization of the 45 hour week.

It has been called to our attention that office space and libraries need to be expanded to accommodate more than 11,000 FTE. Office space and libraries are financed out of state general funds or general obligation bonds. Parking, food service, and housing, if needed, can be financed out of special funds, foundations, student funds, or other sources.

Funds have been appropriated for a library building with a 1972 completion date. A new education building is under construction and scheduled to open in September 1970. The education building will contain the following:

45 Seminar stations
660 lecture stations
237 laboratory stations
71 faculty office spaces
26 other office spaces

This new building will accommodate the following FTE students at full utilization during the 45 hour week and half utilization during the 25 hour night session:

	FTE		
	Day	Night	Total
Seminar	135	38	173
Lecture	1,980	551	2,531
Laboratory	355	99	454
Total	2,470	688	3,158

The September 1970 capacity of Sacramento State College, including the above space, is 25,762 FTE students.

An October 13, 1969 instructional room use study prepared by Sacramento State College for the 1969 fall semester shows that there are 215 lecture rooms and 85 seminar rooms not in use for 3 hours a week each. The actual number of stations in these empty rooms could have accommodated an additional 2,696 FTE students for the 1969 fall semester.

We did not obtain a report on the number of empty stations in the rooms that were in use. A space utilization report on the state college system has been requested by the Joint Legislative Budget Committee and is due November 1, 1969.

A copy of the October 13, 1969 empty room report follows:

INSTRUCTIONAL ROOM USE STUDY
Fall Semester 1969

Analysis of lecture and seminar rooms available during the regular day:

Class Period	Actual number of Lecture rooms available	Actual number of Seminar rooms available	Total
Mon.-Wed.-Fri.			
8:00–8:50	6	11	17
9:00–9:50	4	4	8
10:00–10:50	5	1	6
11:00–11:50	1	6	7
12:00–12:50	7	7	14
1:00–1:50	4	5	9
2:00–2:50	6	0	6
3:00–3:50	40	7	47
4:00–4:50	47	5	52
Sub totals	120	46	166
Tues.-Thurs.			
7:30–8:45	30	10	40
8:55–10:10	7	2	9
10:20–11:35	3	6	9
11:45–1:00	10	7	17
1:10–2:25	12	9	21
2:35–3:50	15	0	15
4:00–4:15	18	5	23
Sub totals	95	39	134
Totals	215	85	300

AVAILABILITY AND UTILIZATION OF FACULTY

The availability and utilization of faculty requires further study than we have made to date.

Faculty staffing for budgetary purposes is determined by the application of the faculty staffing formula to the estimated enrollment for the budget year. The actual assignment and workload of faculty do not correspond to the formula.

About 10 percent of the faculty included in the formula are engaged in non-teaching assignments such as:

College administration
Departmental administration
Research
Counseling and testing

Some of these non-teaching positions are budgeted as such, but most of them are not. Those not budgeted have been called bootlegged positions. Some of the non-teaching assignments are part-time, leaving some time for teaching.

The faculty workload is based on 12 units (hours) of instruction and three units of instructional-related activities. The student-teacher ratio is another measure of faculty workload. The student-teacher ratio at the state colleges averages 16.3 FTE students per teacher.

By adjusting class sizes, the ratio can be maintained with a workload of less than 12 units. The 16.3 FTE students times the 15 unit full-time load per student results in 245 units per faculty position. The relationship of hours taught and class sizes follows:

Hours	Class Size	Units
3	81.6	245
6	40.8	245
9	27.2	245
12	20.4	245

The student-teacher ratio and units taught at junior colleges in the Sacraemnto area are as follows:

	Student-Teacher Ratio	Hours per Student	Units
Sacramento City College	34–1	16	540
American River College	36–1	16	570

Both colleges have stated that a 30–1 ratio of students to faculty would be desirable.

Hastings College of Law, a professional graduate school of law of the University of California, has a student-teacher ratio of 35 to 1 budgeted for 1969–70.

ADMINISTRATIVE FLEXIBILITY

The Chancellor's office has the authority to transfer funds between State Colleges and between the Chancellor's office and the State Colleges. Section 31.5 of the budget act has repeated this authorization for several years. In 1969 this authority was placed into the statutes by separate legislation.

A detailed report covering the entire State College system will be issued early in 1970, and it is the intent of the Joint Committee to review admissions policies and administrative procedures within the University of California during the same year.

CHAPTER FIVE
CITY OF LONG BEACH

TIDELAND OIL REVENUES AND EXPENDITURES

In accordance with the provisions of Chapter 138, Statutes of 1964, Section 10, the Auditor General has examined the statement of cash receipts and disbursements from oil operations conducted on tidelands and submerged lands held in trust by the City of Long Beach for the year ended June 30, 1967.

The examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and other such auditing procedures as were considered necessary in the circumstances.

In the Auditor General's opinion, the accompanying statement presents fairly the cash receipts and disbursements on oil operations from lands held in trust by the City for the State of California for the year under review, on the cash basis consistent with that of the preceding year.

Leasing of Facilities by the Long Beach Unit

Thums Long Beach Company's parent companies and the non-operating contractors of the Long Beach Unit have contracted to initially advance money needed for development and operation of the Long Beach Unit.

These advances will be recovered by the companies out of proceeds from the sale of oil before net profit payments are made to the state.

The contracting oil companies are not entitled to interest on the money they have advanced; however, lease payments, which contain an element of interest are fully chargeable to unit expense. It is therefore financially advantageous for Thums Long Beach Company, prior to payout, to lease equipment when possible so that the cost of financing the equipment will be transferred to the state and city who share in the net profits.

Following are examples of instances where the cost of financing equipment has been transferred to the state and city:

(1) Submarine electrical cable and related transformers costing approximately $4 million which are needed for the life of the field, estimated to be about 35 years, were leased at an effective interest rate of about eight percent per year. This rate represents the added cost of leasing after amortizing the $4 million cost and deducting estimated maintenance and property taxes which are included in the annual rental. Because these facilities were leased rather than purchased, interest costs of about $320,000 per year for the life of the equipment are being transferred to the state and city rather than a one-time charge of $4 million for the outright purchase. In the present agreement the right of purchase has been reserved.

(2) Crew boats, tugs, and barges needed for the life of the field were leased at rates sufficient to pay for them in two to three years (maintenance and crews were paid for separately). At least one crew boat, one tug, and one cargo barge will be needed for the life of the field. The present contract expires in December, 1968.

(3) Substructures used to support the drilling towers on one of the drilling islands were leased, resulting in the transfer of $76,900 in interest cost to the state and city.

(4) The low bid for drilling from Island Bravo was rejected and a contract was negotiated at about the same rates with the second lowest bidder. The negotiated contract was advantageous to Thums' parent companies because it required the drilling contractor to finance the drilling towers and substructures used on the island which Thums would otherwise have had to pay cash for. However, it also resulted in a 44-day delay in the start of drilling on Island Bravo, delaying the start of net profit payments and reducing the present value of future income to the state and city.

(5) The electrical drilling rigs used on three of the four drilling islands were especially designed for

use in the drilling towers used on those islands (conventional rigs were used on the fourth island). These especially designed rigs will have little value once drilling is completed on the islands where they are located. The rigs were furnished by the drilling contractors on the respective islands, and the cost was included in their drilling rates.

This arrangement, which allowed Thums to pay for these special rigs over a period of time, reduced the cash advances required of Thums' parent companies; however, the drilling contractor's additional cost of financing these rigs was probably reflected in higher bids, thereby reducing state and city revenues.

The City of Long Beach reports that it has established a policy regarding rental and lease agreements and that an economic analysis is required prior to the lease or purchase of all major capital items.

RECOMMENDATION

The Auditor General recommends that:

(1) The City of Long Beach and the State Lands Division of the Department of Finance periodically review rental and lease arrangements to evaluate their continued financial feasibility using operating information obtained subsequent to the previous review.

(2) The City of Long Beach negotiate a purchase price for the submarine electrical cables, and the facilities be purchased if doing so would result in an overall increase in state revenues.

(3) The city direct Thums Long Beach Company to obtain competitive bids for, and consider the purchase of, boats and tugs needed for the life of the field.

Criteria for Evaluating Capital Investments

Numerous investment decisions must be made in the course of developing and operating an oil field. Examples of such decisions include whether or not to obtain certain equipment, whether to lease needed equipment or purchase it, and whether or not to repair a well.

The basic factors in evaluating a potential investment usually are (1) the risk involved and (2) whether the expected rate of return from the investment under consideration is greater than that from other available investments.

Because the trust receives almost all of its income from the net profits from oil operations, and because any increase in net profits will accrue primarily to the state, potential investments should be analyzed from the point of view of maximizing the state and city tideland revenue.

RECOMMENDATION

The Auditor General recommends that the City of Long Beach confer with the State Lands Division of the Department of Finance and that definite guidelines, taking into consideration interest rates available to the city and state, be formally adopted for use in selecting potential investments in the tideland oil operations.

Oil Shipping Costs Charged to Unit Expense

Electric power for, and maintenance of, the contracting oil companies' oil shipping pumps is charged to the Long Beach Unit. There appears to be no provision in the Long Beach Unit Agreement or in the operating contract which requires that the Long Beach Unit bear these costs.

RECOMMENDATION

The Auditor General recommends that:

(1) The State Lands Division of the Department of Finance obtain an opinion from the State Attorney General as to whether the Long Beach Unit is required to pay for costs of operating the purchasing companies' shipping pumps, and if there is no such requirement, whether the unit may recover amounts previously paid.

(2) If the State Attorney General finds that the Long Beach Unit is not under a legal obligation to pay for the cost of operating the purchasing company's shipping pumps, he recommends that the city exercise its controlling vote in the Long Beach

Unit to stop future payments and to make recovery of past payments to the extent possible.

Long Beach Unit Data Processing

Thums Long Beach Company purchases data processing services from a number of different firms. The various data processing programs now in use by Thums involve duplication and probably are more costly than if the work were done by a single contractor or by Thums' staff. This fact has been recognized by the city, State Lands Division, and Thums' personnel.

Although Thums has a data processing coordinator, little progress has been made in coordinating the various data processing applications developed by Thums. Preliminary design and cost-benefit data requested by the State Lands Division has not yet been developed.

RECOMMENDATION

The Auditor General recommends that Thums Long Beach Company take appropriate action to improve its data processing activities.

Long Beach Unit Controllable Equipment Records

A controllable equipment list is a list of equipment of relatively high cost for which location records are maintained and which are inventoried periodically. The controllable equipment list established for the Long Beach Unit excludes a number of items of relatively high value but also includes certain other items of nominal value. For example, the Long Beach Unit controls table lamps and certain electrical transformers of minor value but does not control valves, some of which cost in excess of a thousand dollars each, or certain electrical equipment items which cost several thousand dollars per unit. The controllable equipment lists of major oil companies generally include all high-value equipment of a capital nature.

RECOMMENDATION

The Auditor General recommends that the City of Long Beach review the Long Beach Unit's controllable equipment list and establish a more adequate inventory that includes all valuable items of a capital nature.

Long Beach Unit Construction Cost Accounting

During the 1965–66 audit the Auditor General reported that construction projects closed to fixed assets contained a large number of coding errors, duplicate entries for equipment, and entries for items which were not part of the project. He found substantially the same conditions existing during the current (1966–67) audit.

We have been informed by Thums Long Beach Company that procedures are now being instituted to provide for proper future accounting for construction projects, and that projects previously closed to fixed assets will be analyzed and duplicate and other incorrect entries corrected.

Records of Mobil Oil Corporation

In the 1965–66 audit report the Auditor General noted that due to the involved and time-consuming procedures required to obtain source documents from Mobil Oil Corporation it was not feasible, within a reasonable length of time, to complete an audit that would adequately protect the tideland trust's interest in the upland portion of Fault Block Units IV and V.

During the current audit of the Long Beach tidelands the same time-consuming procedures were still required in order to obtain source documents.

Mobil accounts for unit IV and V operations as though the units were an internal Mobil operation. However, because of provisions of the unit agreements there are numerous differences between the records as kept internally by Mobil and those needed for unit purposes. In order to convert the records from Mobil's internal basis of accounting to a unit basis, Mobil's accountants prepare many detailed and time-consuming worksheets. This method of keeping records is unnecessarily complicated and does not offer the built-in controls of a normal double entry system.

A more direct and probably more economical approach would be to initially account for unit transactions on a unit basis.

The work done by the City Auditor at Mobil Oil Corporation, while adequate to provide reasonable assurance that amounts charged to unit operations are computed in accordance with the unit agreements, does not provide assurance that amounts charged to the unit actually

represent goods and services used on unit wells or facilities. The city has been meeting with Mobil and reports that some improvements in accounting record keeping have been made and that new systems will be instituted in 1969.

City and County Property Taxes

Since July 1, 1963 the City of Long Beach and the County of Los Angeles have assessed property taxes based on the assessed valuation of the tideland trust oil reserves operated by city contractors under long-term lease agreements. Prior to July 1, 1963, property taxes were assessed only to the extent of the contracting oil companies' interest in net profits, but since July 1, 1963, they have also been assessed against the state's interest. The property taxes assessed against the oil reserves of the Long Beach tidelands and the state's wholly-owned tract 2 of the Long Beach Unit currently amount to about $10 million per year.

Litigation regarding the assessment of taxes on mineral rights is before the courts in cases between oil companies and the City of Long Beach and Los Angeles County.

Revenues

The net oil and gas revenues from the Long Beach tidelands on the cash basis for the year ended June 30, 1967 amounted to $38 million, which was divided between the city and state in accordance with the statutes.

The State of California received $18.8 million as its share of the Long Beach tideland oil and gas revenues for that year. The state distributed the $18.8 million in accordance with the statutes by depositing $11 million in the California Water Fund, $5 million in the Central Valley Water Project Construction Fund, and the remainder, $2.8 million, in the General Fund.

The City of Long Beach received $19.2 million, of which $2.1 million was to reimburse the city for subsidence-related expenditures and $17.1 million was available to the city for expenditure on harbors, navigation, recreation, and other tideland trust purposes as defined in the statutes.

Long Beach Tideland Legislation

The City of Long Beach was granted in trust certain state-owned tidelands and submerged lands by statutes

enacted by the California Legislature in 1911, 1925, and 1935. The granting statutes restricted the city's use of the lands and of the funds obtained from the lands to the development of navigation, commerce, and fisheries.

When oil was discovered in the Long Beach area in 1937 a dispute arose between the city and the state over whether the city, as trustee, or the state should receive the revenues from the production of oil and gas from the granted tidelands and submerged lands. This dispute was resolved in 1938 by a decision of the California Supreme Court that the city had the right to produce oil and gas from the granted lands.

Development of the oil and gas resources underlying the granted lands started in 1939 and produced large amounts of revenue. The Legislature enacted Chapter 915, Statutes of 1951, in which it determined that because of the amount of oil and gas revenues already spent for trust purposes, the amount of unexpended trust revenues held by the city, and the substantial future oil and gas revenues expected from the granted tide and submerged lands, one-half of currently unexpended and future oil revenues, and all dry gas revenues, should be released from the trust provisions restricting their use to navigation, commerce, and fisheries. Chapter 915, Statutes of 1951, did not specify how the revenue thus released was to be used by the City of Long Beach.

In 1953 the Legislature by joint resolution approved an amendment to the Long Beach City Charter which permitted the city to use for general municipal purposes the oil and gas revenues previously released from trust requirements by Chapter 915, Statutes of 1951. Some of the projects which the city decided to finance from the released trust revenue were storm drains, a city incinerator, a public library, public hospitals, public parks, a fire alarm system, off-street parking, and city streets and highways.

The California Supreme Court in 1955, in ruling on a taxpayer's suit against the city, Mallon vs. City of Long Beach (44 Cal. 2d 199), held that it was beyond the power of the Legislature to grant oil and gas revenue from tidelands and submerged lands to the city for purposes which were not of general statewide benefit because such a grant was a gift of public money to a

municipal corporation, which is prohibited by Section 25, Article XIII, of the California Constitution.

The Legislature acted to implement the Supreme Court's decision in the Mallon case with Chapter 29, Statutes of 1956, First Extraordinary Session. In Chapter 29 the Legislature determined that $120 million of the oil and gas revenue previously received by the city should be paid to the state and that in the future 50 percent of oil revenue and 100 percent of dry gas revenue which had been released from trust provisions by Chapter 915, Statutes of 1951, would go to the state. Chapter 29 expanded the definition of the trust purposes for which the city could use the 50 percent of the oil revenue it was allowed to retain to include the construction, operation, and maintenance of a small boat marina near Alamitos Bay.

Chapter 29 also gave the State Lands Commission specific responsibility for protecting the state's interest in the Long Beach tidelands, made future city contracts relating to the production and sale of oil and gas from the granted lands subject to approval of the commission, and gave the commission authority to examine records relating to the production and sale of oil and gas and to make such other investigations as it found necessary.

In 1964, prompted by the proposed development of the East Wilmington Field (the large easterly extension of the oil field underlying the granted tidelands and submerged lands) the Legislature enacted Chapter 138, Statutes of 1964, First Extraordinary Session, which provided for:

(1) An annual dollar limit on the city's share of oil revenue from the Long Beach tidelands and submerged lands starting with the 1969 calendar year.

(2) Joint city-state responsibility for administration of the new oil field through state approval of annual budgets and plans, but with administration of the older portion of the field remaining primarily a city responsibility.

(3) Deduction of subsidence-related costs from oil revenue before the split between the city and state (Chapter 29 had permitted 25 percent of subsidence costs to be deducted from the state's share of the revenue).

Chapter 138 increased the list of purposes for which the city can spend oil money to include, among other things, recreational projects, the redevelopment of a portion of the Long Beach downtown area, and the construction of city roads near or providing access to the ocean.

Section 6 of Chapter 138, which sets forth the purposes for which the city may use its share of oil revenue, provides as follows:

> "The Legislature hereby finds that the remaining oil revenue hereinabove allocated to the City of Long Beach is needed and can be economically utilized by said city for the fulfillment of the trust uses and purposes described in said acts of 1911, 1925 and 1935 and described as follows in this act, which are hereby found to be matters of state, as distinguished from local, interest and benefit.
>
> "(a) The construction, reconstruction, improvement, repair, operation and maintenance of works, lands, waterways, and facilities necessary for the harbor within the boundaries of the harbor district of said city (as said boundaries were defined on April 1, 1956).
>
> "(b) The construction, reconstruction, repair, operation and maintenance of streets, roadways, bridges and bridge approaches within the boundaries of, or reasonably necessary to provide immediate access to, said harbor district (as such boundaries were defined on April 1, 1956).
>
> "(c) The construction, reconstruction, repair, operation and maintenance of the bulkheads, piers, earthfills, streets, roadways, bridges, bridge approaches, buildings, structures, recreational facilities, landscaping, parking lots, and other improvements on or adjacent to the Long Beach tidelands or on or adjacent to the Alamitos Beach Park Lands for the benefit and use of said tidelands or the Alamitos Beach Park Lands.
>
> "(d) The construction, reconstruction, repair, operation and maintenance of small boat harbors, marine stadiums, maritime museum, marine parks, beaches, waterways, and related facilities, on or adjacent to the Long Beach tidelands or on or adjacent to the Alamitos Beach Park Lands, or on or adjacent to aquatic recreational areas of the aforesaid nature.

"(e) The
tation and dis
ary 1, 1964, b
City of Lon
easterly of tl
Boulevard (a
"(f) The
services reaso
foregoing use
"(g) In a
any other use
purely local,
ment of thos
said acts of
proved in ad

State's Interest in

Of consider
state's interest
that the state's
and therefore a
costs without ir
in state revenue
The city doe
creased net pr
and after Dec
creased net pro
Also, not all
nificantly from
lantic Richfiel
erating costs)
cent of gross r
portion of the
Segment II of
old portion of
excess of its p
to benefit from
Wilmington fi
contractor for
overhead allow
of net profits
pays only five
lars of unit ex

"(e) The acquisition, filling, improvement, rehabilitation and disposal of lands, which have, prior to January 1, 1964, been damaged by subsidence, located in the City of Long Beach westerly of Alamitos Avenue, easterly of the harbor district and southerly of Ocean Boulevard (as said streets and district now exist).

"(f) The acquisition of property or the rendition of services reasonably necessary to the carrying out of the foregoing uses and purposes.

"(g) In addition to the foregoing, expenditures for any other use or purpose of state, as distinguished from purely local, interest and benefit which are in fulfillment of those trust uses and purposes described in said acts of 1911, 1925 and 1935, and which are approved in advance by the State Lands Commission."

State's Interest in Long Beach Oil Operations

Of considerable importance in understanding the state's interest in Long Beach oil operations is the fact that the state's revenue depends ultimately on net profits, and therefore any increase in development and operating costs without increasing revenues will result in a decrease in state revenues.

The city does not benefit to the same extent from increased net profits in the new field (Long Beach Unit), and after December 31, 1968 will not benefit from increased net profits in the old field.

Also, not all of the operating contractors benefit significantly from increased net profits. For example, Atlantic Richfield (in addition to reimbursement for operating costs) receives an administrative fee of 5.4 percent of gross revenue for operating Parcel A in the old portion of the field; Mobil Oil Corporation, operator of Segment II of Fault Block Units IV and V, also in the old portion of the field, receives overhead allowances in excess of its participation in these units and so stands to benefit from increased unit expenditures. In the East Wilmington field, Thums Long Beach Company, field contractor for the Long Beach Unit, receives a 3 percent overhead allowance based on total costs, while its share of net profits is 3.05 percent, so that ultimately Thums pays only five cents of each additional one hundred dollars of unit expense.

Nature of the Auditor General's Review

The city, in its position as trustee for the state in administering the Long Beach tidelands and submerged lands, is responsible for protecting the state's interest in the revenue from these lands. In 1956 the Legislature made the State Lands Commission responsible for overseeing the city's administration of these lands. The Auditor General is required by Chapter 138, enacted in 1964, to make an annual audit of Long Beach tidelands revenue and report his findings to the Legislature.

In making audits of tideland revenues for the Legislature, the Auditor General relies to the extent possible on the systems of controls established by the operating contractors and the City of Long Beach; the supervision exercised by the operating contractors, the city and the State Lands Division of the Department of Finance; and audits made by the State Lands Division and the Long Beach City Auditor. Audit tests of transactions by the Auditor General are limited to those necessary to support the expression of an opinion on the fairness of the state's share of revenues from the granted tidelands and submerged lands. Operating procedures and controls are reviewed to determine whether the city is carrying out its trust responsibilities in accordance with the statutes and in the best interest of the state. The 1966–67 audit did not include a review of the city's expenditures of that portion of oil revenue distributed to the city for trust purposes.

The Long Beach City Auditor made financial audits of the city's operating contractors' records for the year ended June 30, 1967. The Auditor General was able to place considerable reliance on the work done by the city auditor's staff. The scope of the work done at Thums Long Beach Company included the audit of a more than adequate number of transactions. It was found necessary to audit contracts and controls.

No audits of oil operations were completed by the State Lands Division of the Department of Finance covering the 1966–67 fiscal year, before the conclusion of the Auditor General's audits. The division contracted with a firm of certified public accountants to review internal control at Thums Long Beach Company.

The Long Beach Unit

Development of the Long Beach Unit (East Wilmington field), which contains approximately one-half of the Long Beach tidelands and submerged lands, began in April of 1965. The Long Beach Unit is composed of three different areas with different ownership interests. These areas are designated as Tract 1, Tract 2, and Townlot tracts. The equities of each of these areas as of June 30, 1967 are shown below. The equities are subject to future adjustment to reflect additional data obtained from drilling and production.

Tract	Ownership	Surface Acres	Equity
1	City as trustee for state	4,584	85.9259%
2	State	391	6.2185
Townlot	About 10,000 separate interests	1,504	7.8556

The field contractor for the Long Beach Unit is a joint venture of five major oil companies: Texaco, Humble, Union, Mobil, and Shell. These five companies formed a separate corporation, Thums Long Beach Company, to act as their agent in carrying out their responsibilities as field contractor. The City of Long Beach is unit operator of the Long Beach Unit and, as such, directs the actions of the field contractor.

The five-company joint venture was high bidder for 80 percent of the Tract 1 share of oil with a bid of 95.56 percent of net profits payable to the trust. Successful bidders for the remaining 20 percent of Tract 1 oil were: Pauley Petroleum Company—Allied Chemical Company with a bid of 98.277 percent of net profits for 10 percent of Tract 1 oil, and Atlantic Richfield Company—Standard Oil Company with a bid of 99.771 percent of net profits for 10 percent of Tract 1 oil.

The state has entered into a contract, similar to the non-operating contracts mentioned above, for the state's Tract 2. The contractor, Atlantic—Richfield, bid to pay the state 92.25 percent of the net profits assigned to Tract 2, but not less than $16\frac{2}{3}$ percent of the cumulative value of the oil allocated to that tract.

Tract 2 revenues are not included in the financial statement presented in this report because Tract 2 mineral rights were excluded when the tidelands and submerged lands were granted to the city.

The contract between the city and the Tract 1 contractors provides that the contractors will:

(1) Initially provide the Tract 1 trust share of money required to develop and operate the Long Beach Unit. These advances will be recovered by the contractors before net profit payments are made to the city and state.

(2) Purchase the Tract 1 (trust) share of oil at a price determined by the price of oil in five other fields in the Los Angeles-Long Beach area and credit the proceeds to the net profit amount used to determine payments to the city and state.

(3) Advance minimum royalties of $16\frac{2}{3}$ percent of the value of oil produced until payments are due based on cumulative net profits.

(4) Pay their bid percentage of net profits once the cumulative value of their share of oil exceeds the total of the advance royalties and the operating and development costs they have paid.

As field contractor, the five parent companies of Thums Long Beach Company have the additional responsibility of:

(1) Operating the field (as directed by the city).

(2) Making advance royalty payments, currently $1 million per month, for a total period of 60 months or until these advance payments are exceeded by the $16\frac{2}{3}$ percent minimum royalty mentioned above or the 95.56 percent of cumulative net profits that Thums agreed to pay to the city and state.

Effect of Oil Prices on Long Beach Unit Revenues

Prices for crude oil and for refined petroleum products in California have remained stable over about the last ten years, while the costs of other goods and services have increased. The original revenue projections for the East Wilmington Oil Field made in September 1964 were based upon crude oil prices increasing at a rate equal to other price increases for materials and services.

Determination of the amount that Long Beach Unit profits have been affected by the combination of stable oil prices and increasing construction and operating costs would require a detailed analysis of construction cost changes actually experienced by the Long Beach Unit. A rough idea of the changes in construction price levels can be obtained from construction cost indexes prepared by the federal government and by a number of private organizations. These indexes indicate construction cost increases between 1964 (when the original Long Beach Unit revenue estimates were made) and the end of 1967 of about 10 percent to twenty five percent, depending on the index. The increase in Long Beach Unit costs should be less than the total increase in construction price levels from 1964 to 1967 because construction started in 1965 and reached its peak in 1967–68.

Valuation of Long Beach Unit Oil

The contractor's agreement for the Long Beach Unit provides that oil delivered to or on behalf of the field contractor and the Tract 1 non-operating contractors will be valued on a price schedule computed monthly and based on the highest of:

(1) The average of prices posted by substantial purchasers in the Wilmington Oil Field.

(2) The combined average of prices posted by substantial purchasers in the Wilmington, Huntington Beach, Inglewood, and Signal Hill oil fields.

(3) The weighted average of the prices actually paid by substantial purchasers during the same month in the Wilmington Oil Field.

(4) The combined weighted average of prices actually paid by substantial purchasers during the same month in the Wilmington, Huntington Beach, Inglewood, and Signal Hill oil fields.

("Substantial purchaser" is defined by the contractor's agreement as anyone who purchases an average of at least 1,000 to 3,000 barrels per day, the exact amount being based on the oil allocated to Tract 1 during the preceding calendar year.)

Revenue Estimates

Recent estimates prepared by the State Lands Division of the Department of Finance indicate that revenue from the new Long Beach Unit will be substantially less than that previously projected by the city. The division's staff estimates that the field contractor, Thums Long Beach Company, will not reach payout and therefore will not make net profit payments until the latter part of 1971, whereas original estimates by the city were that payout would be reached in the latter part of 1968.

Advance royalty payments of $1 million per month currently being received from the field contractor and divided between the city and state will end in August 1970. Between the time the field contractor's advance royalty payments end in August 1970 and the start of net profit payments, the state will receive no revenue from the 80 percent of the trust's interest in the unit assigned to the field contractor.

Factors which have caused the Long Beach Unit to be less profitable than anticipated include the following:

(1) Reservoir pressure proved to be less than that predicted, which has resulted in production rates being lower than those predicted and which is expected to result in less oil being produced.

(2) Inflation of prices during the construction period, which was not included in the original estimate (the city assumed that oil prices would increase at the same rate as construction costs).

(3) Property taxes on Long Beach Unit mineral rights, which were omitted from the original estimates of unit expense.

(4) Higher than necessary costs resulting from limited advance planning and minimal cost control procedures.

The City of Long Beach prepared an extensive reply to the Auditor General's report on tideland oil operations for the year ended June 30, 1967. In its reply the City disagreed with a number of the Auditor General's comments and the Joint Committee's recommendations.

In August 1968 the Joint Committee held a public meeting in Long Beach to hear testimony on the subject of crude oil prices. Following the public meeting, the Joint Committee communicated with several major oil companies in an attempt to gain additional information on the subject.

Both the City of Long Beach and the Joint Committee expressed a common interest in crude oil prices, due to the impact these prices have on oil development profits.

In February 1969, the oil industry announced that prices for crude oil would be increased by approximately 20 cents per barrel.

The Joint Committee is most pleased with the cooperation the Auditor General has received from the City Manager and the appropriate officials of the City of Long Beach. This harmonious working relationship has greatly assisted all concerned in the accomplishment of their official duties.

Exhibit A

CITY OF LONG BEACH TIDELANDS AND SUBMERGED LANDS HELD IN TRUST

OIL AND GAS OPERATIONS

Statement of Cash Receipts and Disbursements
Year Ended June 30, 1967

Cash receipts:		
Advance payments from the Long Beach Unit:		
Field contractors' advance royalties		$12,000,000
Non-operating contractors' advance royalties		738,000
Portion of city administrative costs advanced by the Long Beach Unit		506,000
Tract 1 oil production tax advanced by the Long Beach Unit Tract 1 contractors, which the city must refund to the trust		299,000
Receipts from that portion of the field developed prior to the Long Beach Unit:		
Sale of oil and wet gas		44,025,000
Salvage sales and other		333,000
Adjustment of prior year receipts		671,000
Dry gas sales:		
Current year		859,000
Prior years		188,000
Total cash receipts		59,619,000
Cash disbursements:		
Operating costs for that portion of the oil field developed prior to the Long Beach Unit	$19,323,000	
City administrative charges	1,459,000	
State administrative charges	857,000	
Advances for Pier J water plant	577,000	
Prior year disbursement adjustments (reduction)	(351,000)	
Total cash disbursements		21,865,000
Net cash available for distribution to the City of Long Beach and the State of California		$37,754,000

Note: In addition to revenue shown above, the state received $251,000 from Tract 2 of the Long Beach Unit, which is not part of tidelands and submerged lands held in trust by the City of Long Beach.

R.M.S. Queen Mary

At the direction of the Joint Audit Committee the Auditor General has conducted a review of the City of Long Beach's acquisition of the R.M.S. Queen Mary. The city is converting the Queen Mary into a hotel, convention center, museum, and tourist attraction.

As of March 31, 1969 the city had encumbered $21,625,696 on the purchase and conversion of the Queen Mary.

Present estimates of the cost to complete indicate that it will cost a total of at least $32 million, consisting of $26 million of tideland revenues plus $6 million of concessionaires' investments.

The expected annual financial benefits from the operation of the Queen Mary as a hotel, convention center, museum, and tourist attraction are estimated to total $3,545,000 as follows:

City of Long Beach:	
Tideland trust funds	$2,475,000
General purpose fund	247,500
State of California—various tax revenues	690,000
Los Angeles County, school districts, and special districts—ad valorem taxes	132,500
Total	$3,545,000

Introduction

The Queen Mary is one of numerous tideland projects built or acquired by the City of Long Beach with tideland oil revenues. Other projects are currently in the planning stages. Projects in the harbor area or under the supervision or direction of the Long Beach Board of Harbor Commissioners may be financed out of revenues or revenue bonds.

City of Long Beach tideland projects, in addition to the Port of Long Beach and the Queen Mary projects, include bridges, small boat marinas, a swimming plaza, fishing pier, arena, auditorium remodeling, the redevelopment of certain subsidence-damaged lands, and the creation of many acres of filled ocean-front land. These projects are designed to make the Long Beach shoreline the world's outstanding water recreation area and a leading convention center.

The net profits from the Queen Mary operations will accrue to the City of Long Beach Tideland Operating Fund. The City of Long Beach uses the Tideland Operating Fund to finance additional tideland projects or for operating expenses of tideland projects.

The museum aboard the Queen Mary will occupy the lower six decks, including the engine rooms. It has been estimated that the museum will occupy floor space equivalent to that of a 400,000-square-foot building.

Most of the upper seven decks of the Queen Mary will be used to provide 411 hotel rooms accommodating 785 guests, restaurant facilities capable of serving 3,000 persons, and a high quality shopping complex.

Public tours will be conducted aboard the Queen Mary, using museum and collateral areas such as passageways, accesses, and egresses, which will be shared by the museum, commercial lessees, and the City of Long Beach.

The State Lands Commission has reviewed the city's plans to spend tideland oil revenues totaling $25,655,155 for purchase and delivery of the Queen Mary, dry docking, removal of machinery and equipment, creation of land for a parking lot and mooring site, and for conversion costs consisting of exterior painting, refurbishing decks and rails, structural modifications, entrances, exits and emergency stairways, electrical systems and environmental control system, fire mains and sprinklers, and hot and cold water systems.

Legal Opinion

The legality of spending tideland oil revenues for the purchase and conversion of the Queen Mary was questioned by the State Lands Commission prior to August 14, 1967, when the commission first reviewed the City of Long Beach's plans to spend its tideland oil revenues amounting to $5,367,240 on the Queen Mary.

In letters to the State Lands Commission the City of Long Beach had stated that the cost of acquiring the Queen Mary and its conversion was expected to be less than $8,750,000. This was the estimated cost of a conventional maritime museum contemplated by the City of Long Beach. Space on the ship would be used 68 percent for museum and tour purposes, and 32 percent for commercial purposes.

Any expense incident to the conversion or improvement of commercial areas would be incurred by operat-

ing lessees and would not be borne by the tideland trust. Based upon these representations, it was the Attorney General's opinion that the proposed expenditures of $5,-367,240 would not be in violation of Chapter 138, Statutes of 1964, First Extraordinary Session.

Revenue Projections

The City of Long Beach expects that the combined attendance at the museum, commercial activities, and tours aboard the Queen Mary will reach 3,500,000 per year within the first five years. Using this attendance level, the City of Long Beach has estimated that the city's annual gross income from commercial leases, tours, and parking will be $3,700,000. The annual operating expenses are estimated at $1,250,000, resulting in an estimated net annual income of $2,450,000 to the City of Long Beach Tideland Operating Fund.

This estimate and other revenues, including taxes, are summarized in the following schedule:

SUMMARY OF ANNUAL REVENUE AND TAX DISTRIBUTION

	Tideland Trust	City	State	County, Schools, and Special Districts
Sales tax	--	$110,000	$440,000	--
Ad valorem tax	--	37,500	--	$132,500
Room tax	--	100,000	--	--
Operating net income (includes $200,-000 in rental payments to the Harbor)	$2,450,000	--	--	--
Copyright privilege	25,000	--	--	--
Alcoholic beverage taxes	--	--	50,000	--
Corporation taxes	--	--	192,500	--
Other (cigarette, liquor license)	--	--	7,500	--
Total	$2,475,000	$247,500	$690,000	$132,500

This summary points out that each year the State General Fund will receive approximately $690,000. In addition, the Tideland Trust, as represented by the Long Beach Tideland Operating Fund, annually will receive an estimated $2,475,000, of which $200,000 is payable to the Harbor Department in land rentals.

The remaining $2,275,000 will be spent to support tideland trust assets, including many which are only par-

tially self-supporting or generate no income on their own behalf. The city estimates that $100,000 received from taxes will be allocated to the promotion of trust activities, thereby reducing the city's net revenues to $147,500.

Contract for Museum and Tour Operations

The museum aboard the Queen Mary will be planned, developed, and operated by the California Museum Foundation under a 40-year contract with the City of Long Beach.

Museum admission fees and the proceeds from miscellaneous museum sales will be retained by the California Museum Foundation for museum operations. The net revenues from guided tours, which the foundation has agreed to conduct for the City of Long Beach at a fee set by the city, will accrue to the City of Long Beach and will be deposited in the Tideland Operating Fund, a trust fund.

Under this contract the City of Long Beach agreed to design and adapt museum areas, provide major maintenance, and provide the California Museum Foundation with $500,000 for the purpose of obtaining exhibits suitable for the museum, $50,000 for the purpose of the museum's pre-opening and opening advertising, and $150,000 for the purpose of planning, organizing, and developing the museum and to defray start-up operational costs.

In addition to planning, organizing, developing, and operating the museum, the California Museum Foundation agreed to perform minor maintenance and to obtain and maintain exhibits with a minimum estimated value of $2,500,000.

Contract for Hotel Convention Center Operations

DQM Corporation, a subsidiary corporation created to conduct the operations of The Diner's Club, Inc., aboard the Queen Mary, has contracted with the City of Long Beach for the exclusive use of most of the upper seven decks of the Queen Mary for commercial operations. The contract covers a period of 25 years with options to extend the lease for an additional 35 years.

The contract provides that DQM Corporation will pay the City of Long Beach annual rentals consisting of the

following percentages of gross receipts derived from commercial operations on the Queen Mary:

30 percent of the first $1,500,000 of gross receipts;
35 percent of gross receipts between $1,500,000 and $1,750,000;
40 percent of gross receipts between $1,750,000 and $2,000,000; and
50 percent of gross receipts over $2,000,000 annually.

The lease provides that the minimum rental shall not be less than $300,000 from the first through the seventeenth year, and not less than $500,000 annually from the seventeenth year for the balance of the term or any extension of the term.

Gross receipts consist of the amounts paid to DQM Corporation by, from, or for the benefit of its sublessees, suppliers, vendors, or third persons for the privilege of selling goods or services to anyone doing business on the Queen Mary. Gross receipts include the net revenue of any operations conducted by DQM Corporation which are not subleased.

DQM Corporation has also agreed to pay the City of Long Beach for the use of 600 valet and preferred parking spaces adjacent to the Queen Mary as follows:

30 percent of gross receipts received by DQM Corporation for parking of motor vehicles in valet and preferred parking areas or 40 cents per vehicle, whichever amount is greater.

The contract also provides for approximately 500 employee parking spaces. In addition to the foregoing, the City of Long Beach will provide public parking for a minimum of 3,000 cars from which the City of Long Beach will retain the revenues. All revenues received by the city under these contracts will be deposited in the Tideland Operating Fund, a trust fund.

DQM Corporation has agreed to maintain all portions of the leased premises. DQM Corporation and the City of Long Beach will share the cost of maintaining collateral areas. The City of Long Beach has assumed responsibility for maintenance and repair of the hull structure and exterior gangways.

DQM Corporation has agreed to invest approximately $5 million for the remodeling and refurnishing of the

leased premises. If DQM Corporation increases its investment over $5 million, the costs and investments in excess of $5 million shall be amortized in a manner to be agreed upon between the parties.

In a separate agreement DQM Corporation is expected to invest approximately $1 million in various utility and structural improvements which will benefit solely the commercial spaces leased by DQM Corporation.

Expenditures, Including Encumbrances

The following schedule shows capital expenditures, including encumbrances, through March 31, 1969 which will be financed out of the Tideland Oil Revenue Fund:

Acquisition cost:	
Purchase price	$3,450,000
Delivery	197,431
Import duties	44,000
Use tax	172,500
Temporary site preparation	93,050
Total acquisition cost	3,956,981
Engineering:	
Preliminary conversion and permanent site	130,184
Site and mooring facilities	188,138
Conversion engineering	847,454
Total engineering	1,165,776
Ship conversion:	
Dry docking	679,869
Installing mud ballast and tank cleaning	224,641
Removal of machinery and equipment	500,636
Ship conversion	13,329,416
Total ship conversion	14,734,562
Permanent site:	
Land fill	1,768,377
Site development	--------
Total permanent site	1,768,377
Total	$21,625,696

The $13,329,416 for ship conversion includes the following:

Prime contracts awarded on April 28, 1969	$12,901,416
Sandblasting and prime coating	428,000
Total	$13,329,416

It is estimated that site development will cost close to $4 million. The estimated total capital expenditures, including site development, amount to $25.6 million.

In addition to the capital expenditures, the Queen Mary Department of the City of Long Beach has incurred operating expenses from December 1967 to March 31, 1969 amounting to $1,476,221. Also, $500,000 has been allocated by the city to the museum for initial exhibit solicitation.

The City of Long Beach has advised that all Queen Mary expenditures will be closed annually to work in process until the ship is completely converted and revenue-producing operations commence. At that date costs will be transferred from the Tideland Oil Revenue Fund to the Tideland Operating Fund.

Chapter 138, Statutes of 1964, provides that detailed descriptions of any expenditure of oil revenue (Tideland Oil Revenue Fund) involving a capital improvement of an amount in excess of $50,000 be filed with the State Lands Commission. The City of Long Beach can spend monies deposited in the Tideland Oil Revenue Fund for operating expenses without filing descriptions with the State Lands Commission and can spend monies in the Tideland Operating Fund for either operating expenses or capital outlay without filing descriptions with the State Lands Commission.

Statutory Definition of Trust Purposes

Chapter 138, Statutes of 1964, First Extraordinary Session, define the control to be exercised by the State Lands Commission over tideland oil revenues held by the City of Long Beach and define the trust purposes for which oil revenues may be spent. Section 6 of Chap-

ter 138, which sets forth the purposes for which the city may use its share of oil revenue, provides as follows:

"The Legislature hereby finds that the remaining oil revenue hereinabove allocated to the City of Long Beach is needed and can be economically utilized by said city for the fulfillment of the trust uses and purposes described in said acts of 1911, 1925 and 1935 and described as follows in this act, which are hereby found to be matters of state, as distinguished from local, interest and benefit.

"(a) The construction, reconstruction, improvement, repair, operation and maintenance of works, lands, waterways, and facilities necessary for the harbor within the boundaries of the harbor district of said city (as said boundaries were defined on April 1, 1956).

"(b) The construction, reconstruction, repair, operation and maintenance of streets, roadways, bridges and bridge approaches within the boundaries of, or reasonably necessary to provide immediate access to, said harbor district (as such boundaries were defined on April 1, 1956).

"(c) The construction, reconstruction, repair, operation and maintenance of the bulkheads, piers, earthfills, streets, roadways, bridges, bridge approaches, buildings, structures, recreational facilities, landscaping, parking lots, and other improvements on or adjacent to the Long Beach tidelands or on or adjacent to the Alamitos Beach Park Lands for the benefit and use of said tidelands or the Alamitos Beach Park Lands.

"(d) The construction, reconstruction, repair, operation and maintenance of small boat harbors, marine stadiums, maritime museum, marine parks, beaches, waterways, and related facilities, on or adjacent to the Long Beach tidelands or on or adjacent to the Alamitos Beach Park Lands, or on or adjacent to aquatic recreational areas of the aforesaid nature.

"(e) The acquisition, filling, improvement, rehabilitation and disposal of lands, which have, prior to January 1, 1964, been damaged by subsidence, located in the City of Long Beach westerly of Alamitos Avenue, easterly of the harbor district and southerly of Ocean Boulevard (as said streets and district now exist).

"(f) The acquisition of property or the rendition of services reasonably necessary to the carrying out of the foregoing uses and purposes.

"(g) In addition to the foregoing, expenditures for any other use or purpose of state, as distinguished from purely local, interest and benefit which are in fulfillment of those trust uses and purposes described in said acts of 1911, 1925 and 1935, and which are approved in advance by the State Lands Commission."

CHAPTER SIX

HEALTH AND WELFARE AGENCY

HEALTH CARE DEPOSIT FUND (THE MEDI-CAL PROGRAM)

Chapter 4, Statutes of 1965, Second Extraordinary Session, created a new medical assistance program effective March 1, 1966 (the Medi-Cal program), and established the Health Care Deposit Fund.

The purpose of this medical assistance program is to provide basic and extended health services to recipients of public assistance and the medically needy. The program is administered by the Health and Welfare Agency.

Two older programs, Public Assistance Medical Care (PAMC) and Medical Aid to the Aged (MAA) were discontinued by this legislation. The new program replaces the discontinued programs and is considerably broader in scope. It is designed to operate within the provisions of Title XIX of the Federal Social Security Act in order to be on a 50-50 cost sharing basis with the Federal Government.

Chapter 4 also established an 11 member board appointed by the Governor. This board, designated as the Health Review and Program Council, serves in an advisory capacity to the Administrator of the Health and Welfare Agency.

Five members of the Council are members of the medical profession, and six members are public members. The Council has been meeting regularly to assist in resolving the numerous problems experienced in the Medi-Cal Program.

The Auditor General examined the statement of financial condition of the Health Care Deposit Fund as of June 30, 1967 and the related statement of operations for the year then ended. The examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and other auditing procedures as were considered necessary in the circumstances.

However, the Auditor General did not audit the counties' and fiscal intermediaries' records supporting the

$731 million expenditure of state and federal money advanced for aid and administrative costs.

A similar examination was made of the financial statements of the fund for the four months from March 1, 1966 (inception of the fund) to June 30, 1966.

Due to the materiality of amounts omitted from these financial statements, the Auditor General expressed an opinion that the financial statements did not present fairly the financial position of the Fund at June 30, 1966 or the results of its operations for the four months then ended.

The receivables, liabilities, and accrued revenues and expenditures at June 30, 1967 were estimated by the Office of Health Care Services based on information available at the time the statements were prepared.

As shown in Exhibit A, the estimated liabilities of the Fund at June 30, 1967 amounted to $152,566,902. Due to the lack of certain information and the limited experience with the program it was not possible to verify the accuracy of these estimates until audits of counties and other providers of service had been completed, or policy determinations had been made.

Amounts due to or from counties are contingent upon the audit of costs incurred by county hospitals and a determination of their rates. Similarly, other liabilities such as PAMC and MAA rate adjustments, retroactive nursing home adjustments, and hospital based physicians are subject to change when audits or other determinations have been made.

Based on later information received from county hospitals as to their costs, the estimated costs incurred by county hospitals for the 16 months ended June 30, 1967 has been increased from $116.3 million, as shown in Schedule 2, to $128.3 million.

This change has the effect of increasing the total estimated expenditures of the Fund for the 16-month period from $1,013,585,414 to $1,025,585,414, increasing the amounts due from the State General Fund and the federal government by $6 million each, and reducing the amount due from the counties by $12 million.

However, amounts due to or from counties still remain only estimates until audits of county hospitals have been made, and settlements as to allowable costs have been

made with the counties. This is also true of several other liabilities.

Due to the uncertainties involved in the estimates, the Auditor General was not in a position to express an opinion on the fairness of the financial statements of the Health Care Deposit Fund for the year ended June 30, 1967.

In addition to the balance sheet (Exhibit A) as of June 30, 1967 and the statement of operations for the year then ended (Exhibit B) and the Auditor General's comments thereon, we are presenting schedules of revenues and expenditures (Schedules 1 and 2) for the 16 months the Fund has been in existence.

We have done so because of the confusion in the accounting for revenues and expenditures between those related to the four-month period ended June 30, 1966 and the 12-month period ended June 30, 1967. This is exemplified by the large amount of prior year adjustments shown in Exhibit B ($92,971,586). Also the statements show the total estimated revenues and expenditures of the Fund since inception.

MONTH OF SERVICE REPORTS

In the report on the Health Care Deposit Fund for the four months ended June 30, 1966, dated February 21, 1967, we made the following recommendation:

> "We recommend that the amount of the medical bills paid each month, by months of service, be obtained to facilitate calculating projections and accruals."

At the time the June 30, 1967 financial statements were prepared, the Office of Health Care Services had received month of service reports on only the California Blue Shield's operations, and these reports were only for the period from March 1, 1966 to August 31, 1966. No month of service reports were available for the activities of Hospital Service of California (Blue Cross-North) or Hospital Service of Southern California (Blue Cross-South) for any period of time.

This meant that the Office of Health Care Services did not have sufficient source information for estimating the June 30, 1967 accruals. The Office of Health Care Services used an average of one to two months of cash payments plus the amount of bills on hand at one of

the fiscal intermediaries as the basis for estimating the amount of bills on hand and outstanding as of June 30, 1967.

All the participants involved in the medical assistance program, i.e., the three fiscal intermediaries, the Department of Social Welfare, and the Department of Public Health, have advanced electronic data processing equipment. It seems to us that by now the Office of Health Care Services should have been able to persuade one of the participants to prepare monthly reports on all of the program's medical expenditures on a month of service basis. The Office of Health Care Services has informed us that it considers this type of information vital to its operations, especially in the development of projected costs.

RECOMMENDATION

We recommend that the Office of Health Care Services take such steps as are necessary to expedite the reporting of medical expenditures by month of service.

COUNTIES' SHARE OF PROGRAM COST

The Medical Assistance Program provides for the participation of counties in the cost of the program. Basically, their share of the cost is not to exceed the costs incurred by them during the 1964–65 fiscal year for health care and county administration for medical assistance for the aged and public assistance recipients, increased each year in an amount proportionate to the increase in population.

Section 14150.1 of the Welfare and Institutions Code gives the counties the option of increasing the scope of the program by including the unreimbursed cost of health care for all other persons in the county hospitals or contract hospitals. Election of the option provision would increase the base period costs in the year 1964–65, but would also have the effect of increasing the State's cost under the program. The federal government does not participate in the increased costs provided by this option.

The Office of Health Care Services has audited and made a determination of the costs incurred by the counties during the 1964–65 fiscal year for health care and

administration for medical assistance for the aged and public assistance recipients, and the unreimbursed cost of health care for all other persons in the county hospitals or contract hospitals for counties electing the option provision.

A majority of the counties have tentatively agreed to the costs as determined by the Office of Health Care Services. Several of the counties, however, have disagreed with some of the principles used in making the determinations, and the State Board of Control has before it petitions from those counties asking for a review of the equity of the principles in question.

Until the State Board of Control acts on these petitions, the exact amount of the counties' share will not be known, and the Office of Health Care Services will have to continue to use its own determinations of the counties' share of costs in the preparation of the financial statements of the fund.

DUPLICATE PAYMENTS OF CLAIMS

Evidence indicates that duplicate payments are occurring in the payment of bills by the fiscal intermediaries. We have been informed that over $1.5 million of duplicate payments have been returned by practitioners voluntarily between March 1, 1966 and June 30, 1967. The Office of Health Care Services is currently attempting to determine the extent of this duplicate payment situation. This determination involves considerable detail work because the fiscal intermediaries do not tabulate their expenditures in such manner that duplicate payments can be readily identified.

There are several areas which must be investigated for duplicate payments, some of which are as follows:

(1) Double processing of the same bill through the Medi-Cal operation.

(2) Double payment of the same bill once through the federal Medicare process and again through the Medi-Cal process.

(3) Payment of premiums for estimated eligible recipients for coverage under Title XVIII of the Federal Social Security Act (Medicare) and pay-

ment of the related medical expenditures of such recipients under the Medi-Cal program instead of Medicare program.

In addition to determining how many duplicate payments have already been made and collecting such overpayments, procedures must be instituted to avoid making more duplicate payments.

RECOMMENDATION

We recommend that:

(1) Duplicate payments that have been made by the fiscal intermediaries be ascertained and recovered.

(2) Improved control procedures be developed and instituted in the operations of the fiscal intermediaries to preclude the duplicate payment situation from continuing.

STATUS OF EXPENDITURE AUDITS

As shown in Schedules 1 and 2, expenditures of the Medical Assistance Program approximated $1 billion for the 16-month period ended June 30, 1067. In Schedule 1 we present an analysis of the $1 billion by major expenditure categories. In Schedule 2 we show the cost of care for categorical aid recipients and certified medical indigents of approximately three-quarters of a billion dollars, detailed by types of service for the same 16-month period. To date very little auditing of those expenditures has been performed.

The Office of Health Care Services is responsible for auditing the expenditures of the Health Care Deposit Fund. That office has, however, delegated the direct responsibility of the private institutional audits to the fiscal intermediaries. We have been informed by representatives of the Office of Health Care Services that the fiscal intermediaries have not started the rate audits of the private institutions.

The audit staff of the Office of Health Car Services spent the major part of its effort during the first 14 months of the program in determining the counties' 1964–65 medical assistance costs because the counties' share of the Medical Assistance Program had to be known for financial purposes. However, as described elsewhere

in this report, the counties' share of costs has not yet been resolved.

Currently a portion of the audit staff is completing the audits of rates of payment of the county hospitals for the discontinued Medical Assistance to the Aged and the Public Assistance Medical Care programs. These rates were in effect from October 1963 to February 1966 and are subject to retroactive adjustment and settlement. The Office of Health Care Services has estimated that these audits will result in approximately $8.4 million being paid to the counties out of the Health Care Deposit Fund during the next two fiscal years.

The remaining members of the audit staff have been auditing the administrative expenses of the fiscal intermediaries and making small tests of the medical expenditures processed by California Blue Shield, the fiscal intermediary which handles payments to private practitioners.

Also, the office has a fraud investigation unit which investigates vendor fraud cases reported to them from various sources. If notification of a recipient fraud case is received, the information is sent to the applicable county fraud unit for investigation.

The federal government has not yet issued any audit reports on California's Medical Assistance Program. We have been informed, however, that the federal Department of Health, Education and Welfare has in process audits of various phases of the Medical Assistance Program.

The Office of Health Care Services has to know, primarily for budgetary purposes, the extent of reliability of the expenditures reported to date. This information can be obtained only through financial audits of reported expenditures. Because the office is so far behind in its work, we believe that assistance should be obtained from private auditors who have had audit experience in the medical field in order to bring the audits to a current basis.

RECOMMENDATION

We recommend that the Office of Health Care Services consider the one-time use of private auditing firms to assist in putting the audits of all expenditures on a current basis.

ADJUSTMENT OF ADVANCES TO COUNTIES

In the report on the Health Care Deposit Fund for the four months ended June 30, 1966, dated February 21, 1967, we recommended that the Office of Health Care Services prepare and process necessary documentation so that corrections could be made on the books of the Health Care Deposit Fund and the General Fund for $7,510,331 incorrectly recorded as an advance of the General Fund and as an expenditure of the Health Care Deposit Fund. An adjusting journal entry had been made for financial statement purposes at June 30, 1966 in order to present the financial statements correctly at that date, but the underlying records had not been corrected, nor had the necessary documents been prepared or processed.

The Office of Health Care Services subsequently prepared and processed the necessary documentation for the $7,510,331; however, a subsequent adjustment to the General Fund books had increased the amount of $7,510,331 by $308,118 and not all of the necessary documentation to correct the books for this additional $308,118 has been prepared and processed.

RECOMMENDATION

We recommend that the Office of Health Car Services prepare and process the necessary documentation to record the correction of the past June 30, 1966 adjustment of $308,118 in county advance accounts of the General Fund in both General Fund and the Health Care Deposit Fund records.

RECONCILIATION OF FEDERAL QUARTERLY REPORTS TO GENERAL LEDGER

Each quarter an accountability statement of the amount of federal funds on hand, the amount received that quarter, and the amount of federally reimbursable expenditures made that quarter is filed with the federal Department of Health, Education and Welfare.

The Auditor General attempted to reconcile the amount received from the federal government between March 1, 1966 and June 30, 1967 as shown by the quarterly reports to the amount received as recorded in the fund's general ledger. He had a variance of approximately $4 million.

We were informed that the federal reports have not been reconciled to the Health Care Deposit Fund's general ledger since the inception of the Medical Assistance Program, March 1, 1966. We believe that such a reconciliation should be made.

RECOMMENDATION

We recommend that the amounts shown in the federal quarterly reports be reconciled each quarter to the amounts recorded in the Health Care Deposit Fund's general ledger.

BILLINGS FOR COST OF CARE OF MENTALLY RETARDED PATIENTS

Early in 1967 the Department of Mental Hygiene sent billings to the Office of Health Care Services which represented the cost of care of the mentally retarded patients under age 65 in various state hospitals. The purpose of these billings was to recover one-half of the cost of care from the federal government under Title XIX of the Federal Social Security Act. This recovery would be revenue to the Health Care Deposit Fund. This recovery would amount to approximately $2,900 per year per eligible patient, and if 5,000 of the 13,000 patients were to become eligible, approximately $14 million of federal funds would be realized.

Two major problems have to be resolved before that purpose can be accomplished: the hospitals have to be certified in accordance with the regulations of either Title XVIII (Medicare) or Title XIX (Medi-Cal) of the Social Security Law, and the patients have to be categorically linked to one of the welfare assistance programs such as Aid to Disabled, Aid to Families with Dependent Children, etc.

The Department of Public Health has been assigned the responsibility of certifying the hospitals. That department has been using the criteria applicable to Title XVIII of the Federal Social Security Act, even though the expenditures are related to Title XIX, in determining how the Department of Mental Hygiene's mentally retarded hospitals shall be certified. The Department of Mental Hygiene has objected to this, maintaining that the accreditation granted by the Joint Commission on

Accreditation of Hospitals is sufficient evidence for certification.

In October 1967 the Office of Health Care Services declared that the four hospitals in question, Porterville, Sonoma, Pacific, and Fairview, were certified under the provisions contained in Section 51207, Title 22, of the California Administrative Code and that the Department of Mental Hygiene should commence submitting bills for payment. The Federal Social Security Administration has rejected this declaration.

We have been informed by representatives of the Office of Health Care Services that they are continuing their efforts to obtain certification of these hospitals so that the maximum available federal funds can be obtained.

Resolution of the second problem, categorical linkage, has yet to be completed. The Department of Social Welfare signed up approximately 5,000 patients in June 1967, but the categorical linkage has yet to be determined by the county welfare departments. In addition, the balance of the patients, approximately 8,000, have to be both signed up and categorically linked. This will be a continuing operation because there is turnover of patients in these hospitals.

We have been informed by representatives of the Office of Health Care Services that the eligibility certification operation will continue as soon as the hospital certification problem is resolved and that the initial billings to the federal government will include costs incurred in as many past months as possible.

EQUIPMENT

Equipment at June 30, 1967 in the amount of $107,869, as shown in Exhibit A, is understated by the amount of the equipment located in the three fiscal intermediaries' offices. The Auditor General estimates this understatement to approximate $184,000.

Representatives of the Office of Health Care Services have informed us that they are in the process of inventorying the state equipment located at the fiscal intermediaries' offices. Accountability is the principal reason for recording equipment; therefore, we believe that the time lag between the purchase date and the recordation date should be reduced in the future.

RECOMMENDATION

We recommend that all state equipment at the fiscal intermediaries' offices be inventoried and recorded immediately, and that future equipment purchases be recorded in the property accounts on a current basis.

ORGANIZATIONAL CHANGES IN THE OFFICE OF HEALTH CARE SERVICES

The Office of Health Care Services was administratively established as part of the Health and Welfare Agency to provide policy determination, fiscal and management control, program planning, etc., for the Medical Assistance Program. Its prime role was to coordinate the activities of the various state departments involved in the Medical Assistance Program.

Problems have been encountered by the office in this coordinator role, and as a result the Office of Health Care Services has found it necessary to assume several functions carried out by other departments. For example, since July 1, 1967 the Medical Fiscal Bureau and Medical Care Research Bureau have been transferred from the Department of Social Welfare, and the Health Care Service Bureau has been transferred from the Department of Public Health to the Office of Health Care Services. In addition, the Office of Health Care Services now has its own personnel office which was formerly in the Department of Social Welfare.

In the addendum to the 1965–66 fiscal year budget for the California Medical Assistance Program a total of 44.8 positions were authorized, and in the 1967–68 fiscal year budget there were 122.8 positions authorized for the office. While many of these positions represent direct reductions in other departments of the Health and Welfare Agency, the comparison indicates the growth of the staff of the Office of Health Care Services since its establishment in early 1966.

DUE FROM GENERAL FUND, STATE OF CALIFORNIA

The accounts receivable of $72,978,702 shown in Exhibit A as due from the General Fund of the State of California represents the difference between the estimated amount that the federal government and the local

governments will contribute towards the total cost of the Medical Assistance Program for the period between March 1, 1966 and June 30, 1967 and the estimate of the total amount of the expenditures for that period.

As mentioned elsewhere in this report, very little support was available for estimating the June 30, 1967 expenditure accruals, and the expenditures have not yet been sufficiently audited; therefore, the exact amount of this receivable will not be known until the $1 billion of expenditures reported for the 16-month period ended June 30, 1967 have been completely audited.

CONCLUSION

Practically the same deficiencies that we commented upon in our Report on Examination of the Health Care Deposit Fund for the four months ended June 30, 1966, dated February 21, 1967, still hamper the fund's operations. For example:

(1) The counties' share of cost has not been fully resolved.

(2) Major problems are still being encountered in the eligibility certification process.

(3) Very little auditing of the fund's expenditures has been done to date.

(4) Not all of the fund's expenditures have been compiled on a month-of-service basis.

The Office of Health Care Services prepared more informative financial statements for the fiscal year ended June 30, 1967 than those for the four-month period ended June 30, 1966; however, sufficiently accurate information was still not available, with the result that considerable amounts of the June 30, 1967 financial data necessarily consist of rough approximations.

·ds the total cost of
›r the period between
and the estimate of
·es for that period.
eport, very little sup-
· the June 30, 1967
nditures have not yet
the exact amount of
ntil the $1 billion of
month period ended
ly audited.

that we commented
ı of the Health Care
ended June 30, 1966,
·er the fund's opera-

has not been fully

g encountered in the
s.

fund's expenditures

ıures have been com-
ıis.

s prepared more in-
he fiscal year ended
four-month period
iciently accurate in-
vith the result that
, 1967 financial data
nations.

Exhibit A

HEALTH CARE DEPOSIT FUND

Statement of Financial Condition June 30, 1967

Assets		
Cash in State Treasury and agency accounts		$542,563
Due from General Fund:		
Untransferred balance of approved executive order	$11,035,126	
Medicare receipts receivable from the Department of Mental Hygiene and the Veterans' Home	2,915,777	
Additional funds required to meet current needs	59,027,799	72,978,702
Due from federal government		61,550,795
Net amount due from counties		14,137,437
Advances to counties:		
Medical assistance	2,583,953	
Administration	764,594	3,348,547
Other receivables and prepayments		11,157
Equipment		107,869
Total		$152,677,070
Liabilities		
Accounts payable:		
Estimated medical bills		$100,827,605
Estimated PAMC and MAA rate adjustments		8,357,732
Retroactive nursing home adjustments		9,040,000
Hospital based physicians		10,200,000
Amounts withheld from hospitals		7,672,395
Administration expenses		1,547,318
Claims in process		4,067,925
Total accounts payable		141,712,975
Due to General Fund:		
Reimbursement of advances for PAMC and MAA programs	$7,818,449	
Reimbursement of Social Security buy-in (July to December 1966)	1,333,239	9,151,688
Due to Social Welfare Federal Fund		1,702,239
Total liabilities		$152,566,902
Reserve for investment in equipment		107,869
Fund balance, per Exhibit B		2,299
Total		$152,677,070

Exhibit B

HEALTH CARE DEPOSIT FUND

Statement of Operations—Year Ended June 30, 1967

Revenues:			
General Fund, State of California, per Section 14157, Welfare and Institutions Code:			
Amount collected under Title XVIII of the Federal Social Security Act			$2,915,778
Return of payments made to Department of Mental Hygiene under the Medical Assistance Program			20,305,554
Subventions for health care benefits			231,874,133
Total General Fund, State of California			255,095,465
Federal government			349,129,278
County governments			203,411,879
Total revenues			807,636,622
Expenditures:			
Premiums for coverage of recipients qualified for Title XVIII(b) of the Federal Social Security Act		$8,715,213	
Medical assistance rendered to recipients under the Medical Assistance Program		703,836,486	
Cost of administration:			
Counties	$6,620,710		
Fiscal intermediaries	8,934,367		
State	3,324,974	18,880,051	731,431,750
Excess of revenues over expenditures			76,204,872
Prior year adjustments (debit)			(92,971,586)
Fund balance, June 30, 1966			16,769,013
Fund balance, June 30, 1967			$2,299

Schedule 1

HEALTH CARE DEPOSIT FUND

Revenues and Expenditures—16 Months Ended June 30, 1967

Revenues:			
State General Fund			$317,580,331
Federal government			427,919,111
Counties, including $120,063,222 county share under the option provision of Section 14150.1, Welfare and Institutions Code			268,088,271
Total revenues			1,013,587,713
Expenditures:			
Cost of care of categorical aid recipients and certified medical indigents (Schedule 2)		$776,417,935	
PAMC and MAA services rendered prior to March 1, 1966		56,887,211	
Cost of administration:			
State	$3,475,149		
Fiscal intermediaries	9,990,605		
Counties	9,065,023	22,530,777	
Cost of care for all other patients under option provision of Section 14150.1, Welfare and Institutions Code:			
County share	120,063,222		
State share	37,686,269	157,749,491	
Total expenditures			1,013,585,414
Fund balance, June 30, 1967			$2,299

Schedule 2

HEALTH CARE DEPOSIT FUND

Expenditures for Cost of Care of Categorical Aid Recipients and Certified Medical Indigents—16 Months Ended June 30, 1967

Type of Service	Amount
Physicians' services	$166,422,573
Prescription drugs	51,816,258
Dentists	48,688,316
Optometrists	12,374,362
Chiropractors	1,966,620
Podiatrists	3,081,699
Home health services	2,228,729
County hospitals	116,300,000
Other hospitals	132,621,764
State mental hospitals	31,030,170
Nursing homes	176,564,338
Hospital-based physicians and free standing clinics	10,200,000
Other services and supplies	23,123,106
Total, to Schedule 1	$776,417,935

ıid Recipients and
ı June 30, 1967

	Amount
---	$166,422,573
---	51,816,258
---	48,688,316
---	12,374,362
---	1,966,620
---	3,081,699
---	2,228,729
---	116,300,000
---	132,621,764
---	31,030,170
---	176,564,338
---	10,200,000
---	23,123,106
---	$776,417,935

CHAPTER SEVEN
DEPARTMENT OF MENTAL HYGIENE

MENDOCINO STATE HOSPITAL

Mendocino State Hospital, located at Talmage, Mendocino County, is an institution for the care and treatment of mentally ill patients. Patients were first admitted to the hospital in 1893, and the present patient population consists primarily of mentally ill, alcoholics, drug addicts, and acute geriatrics.

The hospital also maintains an outpatient clinic, which provides consultation services for former institution patients and other people in need of psychiatric treatment.

Average patient population during the year ended June 30, 1967 was 1,619 and average per capita cost was $5,008. A staff averaging 868 was employed during the 1966–67 fiscal year.

The patient population for 1967–68 was estimated at 1,501 for budget purposes, while actual average patient population for the first six months of the year was 1,559. The increase was due to the growth of the alcoholic program at the hospital.

The role and objectives of the state mental hospitals have undergone considerable evolution in the last decade. The state mental hospital presently acts as a central treatment and training facility for the area in which the hospital is located, and serves in an advisory capacity for local mental health programs. The Department of Mental Hygiene outlines the objective of the hospitals as follows:

"The objective of treatment and rehabilitation for the mentally ill person is to provide him with necessary services as soon as possible with the least disruption of his ordinary life. Treatment and rehabilitation are designed to help him live as a self-sufficient productive citizen."

In line with this current trend, the number of admissions to a mental hospital has become a statistic of increas-

ing significance. Although average patient population has declined in the last ten years from 2,271 in 1957–1958 to 1,619 during 1966–1697, the admissions for the same period have increased from 1,253 in 1957–1958 to 3,435 during 1966–1967. The period of residence in the hospitals varies considerably by type of patient. Approximately 30 percent of the total patient population at Mendocino State Hospital are alcoholics. The same approximate percentage of patients are acute geriatrics. The average residence of alcoholics is 45 days, while the acute geriatrics are primarily terminal patients. Although cost per average patient-day have doubled in the last five years, the cost of treatment per patient has decreased. The cost finding system presently being implemented by the Department of Mental Hygiene will permit more detailed analysis of accumulated data.

The support operations at Mendocino State Hospital are financed from the General Fund of the State of California. Research activities are supported by the General Fund, federal appropriations and grants, and from grants from private sources. Capital outlay expenditures are made from the General Fund and the State Construction Program Fund.

Trust accounts are maintained for patients' personal funds.

A Patient Benefit Fund is maintained. Revenue for this fund is derived primarily from profits of the canteen operation and income from investment of patient's surplus cash. Expenditures from the fund are for the education and entertainment of the patients.

The report discussed in this Chapter represents the findings and recommendations resulting from a review by the Auditor General of the operations of Mendocino State Hospital during the months of March, April, and May 1968.

FINDINGS AND RECOMMENDATIONS

LAND USAGE

The total land owned by the state for operation of Mendocino State Hospital is approximately 1,282 acres. The hospital is located on a plot of land of about 131 acres. Approximately 640 acres of land is utilized for farming, consisting of a hog ranch, a dairy, and field crops to sup-

port these operations. The remaining 511 acres is watershed land.

A reservoir is located on the watershed land and was the hospital's original water supply. The land surrounding the reservoir has been controlled to protect the water rights of the hospital. However, an adequate water supply is now available from a well system. This land is now used occasionally for pasture, and a picnic area is located adjacent to the reservoir. The Mendocino County Assessor estimated the present market value of this land at $121,000.

RECOMMENDATION

We recommend that the state dispose of the approximate 511 acres of watershed land.

FOOD PURCHASES

Procedures for procuring grocery items are unnecessarily complex and time-consuming.

Each quarter the Department of Mental Hygiene prepares two EDP listings:

(1) Three-month listing. This is a listing of all food items which are expected to be consumed, applied to the estimated patient population for the next succeeding quarter, to arrive at the "eligible" food purchases for the next quarter. This listing forms the basis for preparation by the hospital food administrator of the quarterly food purchase estimates.

(2) Five and one-half month listing. This is a listing of the quantities of goods expected to be consumed during the five and one-half months following the submission of the food purchase estimates for the next quarter. The purpose of this listing is to provide guidelines for the institution in estimating inventory requirements until the next shipment of food items will be received. In actual practice the hospital does not make use of this listing.

The quarterly food estimates are forwarded to the Department of General Services, which obtains bids, selects the successful vendors, and issues purchase orders and delivery instructions.

RECOMMENDATION

We recommend that:

(1) The Department of Mental Hygiene discontinue the preparation and distribution of the five and one-half month EDP listings.

(2) The Department of Mental Hygiene revised the present food ordering procedures whereby:

   (a) Hospitals submit lists of standard menus to be served during the next quarter and lists of physical inventories.

   (b) The Department of Mental Hygiene, by utilization of a central computer, prepare the food estimates for all hospitals from the lists of standard menus to be prepared, population estimates, and physical inventories, and forward these estimates directly to the Department of General Services with copies to the hospitals.

FOOD STORES INVENTORY

Effective July 1, 1967 Mendocino State Hospital, with the approval of the Deputy Director, Division of Administration of the Department of Mental Hygiene, discontinued maintenance of perpetual inventory records of food stores items. These records are still required by the State Administrative Manual.

Although these inventory records left much to be desired, they provided a starting point from which to verify the proper utilization of these items. Under present procedures it is almost impossible to determine the validity of balances of stores on hand and to assure that all goods received have been properly accounted for.

At present the hospital is utilizing standard menus which have been approved by the Department of Mental Hygiene. The department maintains daily population data received in conjunction with the cost finding system and prepares quarterly EDP listings of all food items to be purchased, extended by the estimated patient population. A food administrator from the department visits the hospitals to review, analyze, and coordinate the activities of the hospital food administrators. With the installation of a centralized purchasing system, the department would have all of the necessary facilities to institute a modern system of control over food items.

RECOMMENDATION

We recommend that accountability for the proper utilization of food items be assigned to the food administrator at the department level. In order to properly fulfill this function we recommend that the food administrator be furnished computed inventories to compare to actual physical inventories to locate and investigate material variances, and that the food administrator be supplied with adequate information to verify that patients are receiving the best diets available within budgetary limitations.

INDUSTRIAL THERAPY ASSIGNMENTS

Approximately 45 to 50 percent of the patient population at Mendocino State Hospital have "industrial therapy" assignments. Although records regarding industrial therapy assignments are very limited, our calculations indicated that a minimum of 35 percent of the total labor required to run the hospital is contributed by patients.

In the final report of the California Commission on Staffing Standards for State Mental Hospitals, issued to the Senate on February 1, 1967 the commission stated that patient labor should never be used "to run the hospital" and recommended that the use of patient labor as the means by which present levels of hospital service are maintained be eliminated. The report stated that where it is in the interest of the patient to be given a regular work assignment, he should be paid for his work.

RECOMMENDATION

We recommend that the department consider the recommendations of the California Commission on Staffing Standards for State Mental Hospitals regarding the use of patient labor, and that amounts earned by patients be applied against the patients' charges.

COST FINDING SYSTEM

The Department of Mental Hygiene is in the process of developing and implementing a "cost finding system" throughout the state mental hospitals and the department. The system being developed is based on the "Uniform Cost Analysis Manual" prepared by the Uniform

Accounting Committee of the California Hospital Association.

The primary objectives of cost analysis as outlined in the Uniform Cost Analysis Manual are:

(1) Establish a relationship of revenue to cost in the individual centers.
(2) Provide a basis for establishing equitable rates to be charged for hospital services.
(3) Assist in the formation of financial policies of the hospital.
(4) Compare costs with other individual hospitals if desired.
(5) Provide information for use by hospitals in public relations.
(6) Encourage cost consciousness among responsible employees.

The primary impetus for the development of a cost finding system has been Medicare legislation requiring actual cost figures for patients whose charges are being paid by the Social Security Administration.

As previously mentioned, patient labor, in the form of industrial therapy assignments, contributes an estimated 35 percent of the total labor required to run Mendocino State Hospital. This labor is not taken into consideration in the cost finding system being adopted by the Department of Mental Hygiene.

The ability and desire of patients to accept industrial therapy assignments vary widely by type of patient, as illustrated in the following analysis of patient population on April 30, 1968:

Type of Patient	Patient Population	Number Considered Available For Industrial Therapy Assignments	Number Actually With Industrial Therapy Assignments	Percent With Industrial Therapy Assignments
Alcoholics	490	474	347	71%
Mentally Ill	571	381	359	63
Drug	53	53	16	30
Geriatrics	493	61	--	--
Total	1,607	969	722	45%
Percent of total	100%	60%	45%	

The following tabulation shows that the alcoholics and mentally ill categories furnished the bulk of the patients with industrial therapy assignments:

	Patient Population		Patients With Industrial Therapy Assignments	
Type of Patient	Number	Percent of Total	Number	Percent of Total
Alcoholics	490	30%	347	48%
Mentally Ill	571	36	359	50
Drug	53	3	16	2
Geriatrics	493	31	--	--
	1,607	100%	722	100%

The failure to take into consideration such a large percentage of the total labor necessary to run the hospital invalidates the results obtained and precludes the attainment of the primary objectives of the cost finding system.

Maintenance and utility costs of employees' housing and of farming operations are allocated to treatment cost centers rather than to the non-treatment programs for which these costs are incurred. This results in an overstatement of the costs of patient treatment and an understatement of the costs of providing these facilities.

The cost finding system as presently administered appears to be too rigid in the area of the medical-surgery division. Nursing personnel in this division are assigned to various cost centers on the basis of daily contingencies. No provision has been made in the cost finding system for temporary assignments of personnel if the total time on each temporary assignment constitutes less than 20 percent of the total month's assignment. In addition, numerous ancillary services performed in the medical-surgery division are not listed in the relative value book, which provides the basis for charging for ancillary services. Personnel preparing documentation in the cost centers are confused about the purpose of the cost finding system and the ultimate utilization of information which they are submitting. The cause of the confusion in these areas appears to be a lack of proper follow-up and coordination in the installation and maintenance of the cost finding system.

RECOMMENDATION

We recommend that:

(1) The Department of Mental Hygiene re-evaluate its approach toward the finding of costs and make provision for the proper recording, evaluation, and assignment of patient-contributed labor.

(2) Costs attributable to non-treatment activities be allocated to those activities.

(3) Mendocino State Hospital and the Department of Mental Hygiene strengthen their programs for review and coordination of the implementation of the cost finding system.

PATIENTS' BENEFIT FUND EXPENDITURES

Expenditures from the Patients' Benefit Fund are restricted by the Welfare and Institutions Code to expenditures for "the education or entertainment of the patients of the institution". The review disclosed that expenditures have been made for other purposes.

Patients are paid $3 from the Patients' Benefit Fund for each pint of blood donated by the patients to the Sonoma County Blood Bank. The hospital is a member of the Sonoma County Blood Bank, and by maintaining a balance in the bank is charged only $12.50 per pint of blood drawn from the bank. An outright purchase of blood would cost $37.50 per pint. The net effect of this arrangement is to reduce the expenditures from the General Fund. During the 1966–67 fiscal year the hospital withdrew 178 pints of blood at a savings of $4,450 (178x $25) and during the period from July 1, 1967 through March 31, 1968 withdrew 105 pints at a savings of $2,625 (105x$25). Patients were paid from the Patients' Benefit Fund $870 during the 1966–67 fiscal year and $897 during the first nine months of 1967–68 fiscal year for blood donations.

Expenditures for patient clothing in the amount of $1,524.51 were made from the Patients' Benefit Fund during the 1966–67 fiscal year. The clothing was received in four shipments in January, February, and March of 1967. These expenditures were recorded as "Christmas gifts for patients".

Many expenditures for items of equipment such as washing machines, clothes dryers, and vacuum cleaners are made from the Patients' Benefit Fund. The determining factor as to whether these items should be purchased from the General Fund or the Patients' Benefit Fund appears to be the availability of funds in the General Fund. These expenditures are justified by the hospital business administrator on the basis that the equipment would not otherwise be available to the patients, there is some educational value to the patients, and the practice is sanctioned by the Department of Mental Hygiene and the Department of Finance.

RECOMMENDATION

We recommend that the hospital restrict expenditures from the Patients' Benefit Fund to those for the education and entertainment of the patients as specified in the Welfare and Institutions Code.

TRUST OFFICE CASHIERING AND BOOKKEEPING

The cashiering and bookkeeping activities for trust accounts at Mendocino State Hospital are under the direct supervision of the hospital trust officer. All personnel in the trust office have access to the cash drawer, and the drawer is not locked during the absence of both the cashier and her relief assistant.

The Auditor General's staff observed considerable overlapping of duties between the cashier and the bookkeeper and an apparent disregard for internal control over patients' cash and accounts. The bookkeeper prepares a proof listing of checks. In addition, the bookkeeper prepares a proof tape of checks posted after she has completed the posting operation and prepares a receipt in total from this listing. She then forwards the listing, receipt, and checks to the cashier for deposit. The bookkeeper also receives from patients requests for spending money and canteen orders. She makes corrections on these forms when funds are not available, posts the amounts to individual account ledgers, and prepares an adding machine tape listing for proof. The bookkeeper notifies the canteen manager of adjustments in canteen orders, and the canteen manager adjusts the orders to conform to the limits of funds available. The bookkeeper

forwards the requests for funds and the canteen orders to the cashier, and the cashier makes the disbursements.

RECOMMENDATION

We recommend that:

(1) The cashiering and bookkeeping activities be placed under the direct supervision of the hospital accounting officer.

(2) Accessibility to the cash drawer be limited to the cashier and her relief assistant, and that the cash drawer be locked in their absence.

(3) All checks be recorded by the cashier when received; the cashier prepare listings of these checks showing patients' names or numbers, deposit those checks which require no further processing, and provide the bookkeeper with a copy of the listings as a posting source.

(4) All disbursements be processed first by the cashier, and the cashier provide the bookkeeper with a listing for proof purposes.

(5) Where verification of availability of funds is required prior to the disbursement by the cashier, this be done as a separate operation. In no case should the bookkeeper be authorized to alter amounts as shown on the source documentation.

PATIENTS' PERSONAL PROPERTY

The trust officer is responsible for the safekeeping of the patients' personal property. This property is stored in unsealed envelopes on open shelves in a vault. The vault is accessible to all employees.

RECOMMENDATION

We recommend that the patients' personal property be placed in sealed envelopes and that doors with locks be constructed to enclose the shelves.

ABANDONED ACCOUNTS WITH SMALL BALANCES

The trust office carries a number of accounts which have been abandoned by the depositors. About one-half of these accounts contain balances of $5 or less. Under

present law, these accounts must be maintained for a period of seven years before being remitted to the State Treasurer.

RECOMMENDATION

We recommend that the Department of Mental Hygiene introduce legislation to revise the Welfare and Institutions Code to allow state institutions to be relieved of accountability for abandoned accounts with small balances after a period of one year.

ABANDONED ACCOUNTS AND PROPERTY

Thirty-three accounts with a total of $743.94 have been held for more than seven years since the dates the patients were discharged. In addition, the vault contains several boxes of personal property that was abandoned by discharged patients.

Section 4127 of the Welfare and Institutions Code provides for the disposition of such accounts upon the expiration of a seven-year period from date of discharge and for the disposal of other property upon the expiration of one year. After the expiration of these periods the trust officer must transfer the balances or proceeds to the State Controller for deposit in the Unclaimed Property Fund.

RECOMMENDATION

We recommend that:

(1) Abandoned accounts kept for seven years be transferred to the State Controller for deposit in the Unclaimed Property Fund.

(2) Abandoned property held for a year be auctioned and the proceeds transferred to the State Controller.

CASE REVIEW OF PATIENT FILES

Claims for a patient's benefits are filed on the basis of a questionnaire completed the day following the admission of the patient. This questionnaire does not give a complete history of the patient's background, and the trust office does not review patients' case files to ascertain that all benefits are being obtained. In addition, the

financial circumstances of patients may change considerably due to a variety of factors, including legislation. Since there is no procedure in effect for automatic determination of additional benefits that may be available as the patients' financial circumstances change, revenue for both the patients and the state is being lost if a periodic review of the patients' case files is not made.

RECOMMENDATION

We recommend that the trust officer initiate a system of continuing review of patients' case files.

TRUST ACCOUNT BALANCE INQUIRIES

The trust office does not attempt to keep patients or affected ward personnel informed of balances in patients' trust accounts available for expenditure. As a result, trust office personnel are frequently requested by patients and staff to furnish information on patients' trust account balances.

RECOMMENDATION

We recommend that each ward receive periodic reports of its patients' trust account balances to avoid the need for inquiries addressed to the trust office.

TRUST OFFICE STAFFING STANDARDS

The trust officer at Mendocino State Hospital acknowledged the existence of the deficiencies which we have described in this report pertaining to the trust office operations, and said that they result from having inadequate staff to properly perform the duties of his office.

The trust office does not have on file descriptions of the duties and responsibilities of the positions in that office. No standards of performance have been developed, and no attempt has been made to gather statistical data relative to the productivity of trust office personnel. Consequently, the trust officer is not in a position to make an appraisal of personnel required to adequately perform the duties of his office. Also, the trust officer has stated to us that he does not have the time to correct the present deficiencies.

Legislative action providing benefits to broader classes of patients, the trend toward shorter periods of confine-

ment in state mental hospitals, and the fact that patients are generally from a higher socio-economic level than they were in prior years indicate that the responsibilities and activities of the trust office personnel have increased substantially. We do not, however, believe that requests for additional staffing should be made until the trust officer has determined on the basis of sound performance standards that a larger staff is justified.

RECOMMENDATION

We recommend that the trust officer at Mendocino State Hospital make a comprehensive analysis of the productivity of his staff, prepare a description of the duties and responsibilities of each member of his staff, and institute a system of accumulating statistical data which can be utilized in the preparation of standards of performance and relatively accurate estimates of staffing patterns necessary to adequately perform the duties of his office.

PERSONNEL PERFORMANCE REPORTS

The personnel department of Mendocino State Hospital has a three-page list of employees whose folders do not contain current performance reports. Personnel folders of 50 percent of the employees in the trust office and 46 percent in the business office lacked current performance reports.

The State Administrative Manual, Section 0472, and the Department of Mental Hygiene Personnel Training Manual, Section 900.122, require that annual performance reports be prepared for each employee for filing in each employee's personnel folder. The failure to prepare and file these reports on a current basis indicates a laxness in the area of personnel management on the part of the administration.

RECOMMENDATION

We recommend that personnel performance reports be prepared and filed for all employees on a current basis.

ATTENDANCE REPORTING

Daily attendance reports are submitted to the personnel office, on a negative basis, on a mimeograph form

entitled "Mendocino State Hospital Attendance Reporting Form", P401. This information is then transcribed on Department of Mental Hygiene employee attendance record, form 1627, which is also used as an employee leave record, and to the State Controller's attendance report, form 672, which is forwarded to the State Controller's office.

The above procedures result in a duplication of records. The State Administrative Manual, Section 8540, states that the State Controller's attendance report shall be used as the complete record of attendance.

RECOMMENDATION

We recommend that:

(1) The hospital utilize the State Controller's attendance report form for unit timekeeping and as the permanent attendance record.

(2) The hospital discontinue using the Mendocino State Hospital attendance report and discontinue using the Department of Mental Hygiene attendance record form 1627 except as an employee leave record.

PATIENT PLACEMENT IN PRIVATE FACILITIES

The trend in the treatment of mental illness in the state is to place as many patients as possible in a community setting. The decision to place a patient in the community is made by the hospital staff consisting of the doctor, nurse, and social worker.

Once the patient is placed in the community facility, the patient becomes the client of the field social worker, who is an employee of the Department of Social Welfare. At this time the patient is placed on an indefinite leave status by the hospital and is given access to its outpatient services.

A family care home has a maximum population of six and an average population of approximately 3.5 and is certified by the Department of Social Welfare. The home is usually located in a residential area and operated by its owners. The Auditor General's staff visited one family care home in the Ukiah area. The home was neat, and the residents were all patients from the state hospital.

They also visited two boarding homes. The first of which had 16 residents. This home was located near the downtown business district, where shopping is convenient. The home was an old, two-story structure which was licensed by the City of Ukiah, and was operated by a non-owning manager and one assistant during the day and by one assistant for each of the other shifts. When the staff visited the home only one person, the manager's day assistant, was present. The medicine cabinet was open and several other hazards were observed. The exits from the top floor were steep staircases which would be difficult to use in an emergency.

The second boarding home was located in a residential area and contained five patients. One patient had been placed there privately, and the rest were from the state hospital. The home was a neat, four-bedroom home operated by its owners. This home was also licensed by the City of Ukiah.

The staff also visited a convalescent or nursing home located in Ukiah's residential area. The building was a large, one-story structure which was well furnished. The building contained two dining rooms, laundry, kitchen, physical therapy room, occupational therapy room, lounge, offices, and 60 beds. Forty patients were there at the time of the visit, some having been placed privately and others by the state hospital. The home was operated by a non-owning manager assisted by a large staff. In addition to cooks, laundress, and janitors, there was one registered nurse present and several licensed vocational nurses. The registered nurse stated that for the other two shifts a registered nurse was on call. The physical therapist was also on call. This home was licensed by the state Department of Public Health.

The social workers seemed disturbed over the lack of registered nurses for all shifts and the tendency of the staff to wait on the patients, thereby making them too dependent on others. The lack of an occupational therapist and registered nurses also contributed to the dependency of the patients and the dilution of care and treatment.

Staffing of nurses seems to be a major problem in the Ukiah area. There are two nursing homes, a private hospital, a county hospital, and Mendocino State Hos-

pital. Being a rural area, there is some difficulty in recruiting registered nurses. We were informed that, as a result, many of the registered nurses at the state hospital also hold other nursing jobs outside of regular working hours.

It appeared to us that the standards as to facilities and staffing varied considerably in the community placement residences, and that closer supervision and inspection are required by an agency of the state with authority to establish and enforce minimum standards. However, we are making no recommendations concerning community placement because we believe that a broad review of all of the circumstances would be required, which is greater than the scope of the present review.

SCOPE OF REVIEW

In conducting this review of operations at Mendocino State Hospital, reports summarizing activities of the institution were reviewed and analyzed, and a preliminary survey of operations was conducted at the hospital.

On the basis of this analysis and preliminary survey, areas in which there appeared to be probable deficiencies were selected for the subject of the review. These selected areas were purchasing, storage, and preparation of food items; land utilization; patient labor; development and implementation of a cost finding system; revenue and expenditures of the Patients' Benefit Fund; trust office activities; and personnel recordkeeping procedures.

PATTON STATE HOSPITAL

Patton State Hospital, which was founded in 1893, is located in the City of San Bernardino. It is an institution charged with the care and treatment of mentally ill and mentally retarded patients.

The patient population on June 30, 1968 was 2,471. Of these, 1,983 were mentally ill patients and 488 were mentally retarded patients. Not included in these figures were approximately 2,200 patients on leave status.

Approximately 12 percent of the mentally ill population consists of patients who have reached the age of 65 and are classified as geriatrics. An equal percentage of

patients is classified as alcoholic. The balance, or approximately 75 percent, includes geriatrics who have not reached the age of 65, alcoholics who are not involved in the alcoholic treatment program, drug addicts, and others who have the general classification of mentally ill.

There are approximately 1,300 employees on the staff. About 130 treatment personnel are involved in the mentally retarded program.

For the 1967–68 fiscal year the hospital had a monthly average admission rate of 319 patients and a monthly average discharge rate of 322 patients. This rate is equivalent to turning over the mentally ill patient population every six months.

The support operations of the hospital are financed from the General Fund of the State of California. Research activities are supported by the General Fund and federal appropriations and grants. Capital outlay expenditures are made from the General Fund and the State Construction Program Fund.

Trust accounts are maintained for patients' personal funds.

A Patient Benefit Fund is maintained. The primary source of revenue of this fund is the investment of patients' surplus cash. Other income is derived from the profits of the canteen operations and from donations.

The report under discussion presents findings and recommendations based on a review by the Auditor General of operations at Patton State Hospital during the months of June and July 1968.

The review disclosed that the organizational structure at the hospital was put into effect when the patient population was almost double the present population. The changes in patient population plus the resulting changes in staffing and technological advances in methods of treatment have not been reflected in changes in the organizational structure. As a result, the present staffing appears to be topheavy, encourages friction among the various disciplines, and is not responsive to patient needs. We are recommending that the organizational structure be reviewed.

Patients are assigned to units on the basis of factors other than a diagnosis of their illnesses, and treatment programs vary from those purely custodial to very active programs. We are recommending that the hospital de-

velop specific treatment programs for various types of mental illness and that all patients be assigned to units on the basis of a diagnosis of their illnesses and recommended treatment.

The qualifications for the position of administrative assistant in the state mental hospitals, as shown in the State Personnel Board specifications, are sufficiently broad as to leave the selection of personnel to fill these positions solely the responsibility of the hospital superintendents. The duties assigned to these positions are quite varied. Four of the hospitals have elected not to fill the positions. The administrative assistant at Patton is involved in making decisions which are properly the responsibility of the associate superintendent or the hospital administrator. We are recommending that the position be abolished at Patton.

The trust office operation at this hospital is under the direct supervision of the accounting officer. This organizational structure places undue restrictions on the trust operation, and we are recommending that the organizational structure be modified.

The records of industrial therapy assignments are not adequate, and these assignments appear to be made primarily on the basis of the needs of the hospital. No training programs for patients have been established in conjunction with the industrial therapy assignments. We are recommending that the hospital establish and maintain adequate records of all industrial therapy assignments, make these assignments on the basis of patient needs, establish training programs for patients, and make payment to patients for work performed which would be applied against their hospital charges.

Patients are assigned duties under a "work training" program at the residences of staff members on the hospital grounds and are supposed to receive \$3 to \$5 per week from staff members to whom they are assigned. There is no attempt made to assure that patients are actually paid. We are recommending that adequate accounting controls be established over earnings of patients and that all funds earned by patients be processed through the trust office.

The hospital has recently instigated a program of charging patients for property damage that they have committed. We are recommending that the hospital and

the Department of Mental Hygiene review the propriety of this program.

Many expenditures from the Patients' Benefit Fund were found to be beyond the scope of authorized expenditures from this fund by the Welfare and Institutions Code, and are therefore recommending that these unauthorized expenditures be discontinued.

The membership of the Patients' Benefit Fund Committee does not comply with the policy of the department, and we are recommending that the membership be altered accordingly.

A review of the canteen operations disclosed discrepancies between the computation of the manager's bonus as required by the manager's contract and as actually computed. Also, it was found that part of the canteen's profits has been invested instead of transferred to the Patients' Benefit Fund. We are recommending that the canteen manager's bonus be computed in accordance with his contract, and that funds presently in investments be transferred to the Patients' Benefit Fund.

The personnel policy at this hospital prohibits the hiring of discharged patients for a period of one year from the date of discharge. This policy creates problems for the patients in obtaining employment in the community, and we are recommending that the policy be revised to permit the immediate employment of qualified discharged patients.

An evaluation of the cost finding accounting system being implemented throughout the state mental hospital system disclosed that the personnel reporting procedures at Patton do not reflect actual personnel assignments, and that no consideration is being given to the value of patient-contributed labor. We are therefore recommending that the hospital rectify the deficiencies in reporting procedures and that the Department of Mental Hygiene revise its procedures to reflect the value of patient-contributed labor.

The present budgetary processes have no provision for the value of patient-contributed labor. The availability and utilization of patient labor varies greatly among hospitals and units within hospitals, and patient-contributed labor has a direct effect on the level of care which patients receive. We are recommending that the

Department of Mental Hygiene revise these procedures to reflect the value of patient-contributed labor.

The findings and recommendations in this report have been reviewed with appropriate hospital and department personnel.

evise these procedures
tributed labor.
ns in this report have
hospital and depart-

CHAPTER EIGHT
STATE PRINTING PLANT

REPORT ON STATE PRINTING COSTS AND SERVICES

By House Resolution No. 240 (Ryan), 1968 Regular Session, the California Assembly directed the Legislative Analyst and the Auditor General to make a study of printing done for the state. The feasibility of having some or all of this printing done by contract with private printers instead of by the State Printer is the major issue raised by this resolution.

In preparing this report, the factors of costs, time between order and delivery, and quality of printing are to be compared between the work of the State Printer and private printers. The various fields of printing, including but not limited to textbooks and legislative reports, are to be included in the study.

This report has been prepared by the Legislative Analyst and the Auditor General in direct response to the specific issues raised in HR 240. Two additional studies will be forthcoming early in 1969 providing further information and understanding of the operation and management of the Office of State Printing. Senate Concurrent Resolution No. 108 (Dolwig), 1968 Regular Session, directed the Joint Legislative Budget Committee to conduct an analysis of the operations of the Office of State Printing in cooperation with affected state agencies, including assistance from appropriate private sources. The Legislative Analyst as staff to the Joint Legislative Budget Committee will submit this report not later than the 30th day of the 1969 Regular Session.

The Auditor General has completed a review to evaluate the effectiveness and efficiency of the administration of the programs for which the Office of State Printing is responsible. A report will be submitted to the Joint Legislative Audit Committee detailing the findings of this study in the near future.

LEGISLATIVE PRINTING

The Office of State Printing prints all bills (original, amended and enrolled), journals, histories, files, indexes and other session publications for the California Legislature. In addition, other legislative printing, excluding duplication of certain legislative materials, is also printed by the State Printer.

The business of the Legislature is dependent on the timely receipt of the publications of the houses, and therefore these publications have first priority at the State Printing Plant. The Daily File must be received before the beginning of the legislative session. The timely receipt of printed bills is an absolute necessity.

Legislative publications such as the Weekly History and all bills are set in type that is held in page form by the State Printer. The Weekly History is printed by entering new actions only. The amending of bills is accomplished by rearranging the existing pages already set in type. The paperback editions of the Government Code which are printed by the State Printer utilize the type remaining from the production of chaptered bills to update the existing codes which are held in lead type. It is estimated that the printing plant currently has 750,000 pages in standing type related to legislative business.

We do not believe that it would be feasible to have printing associated with the legislative session done by contract with private printers. No printing firm in the Sacramento area has the staff or facilities to produce all of the legislative session printing and maintain the level of service currently provided by the Office of State Printing. It is mandatory that all legislative session printing be accomplished at one location because of the requirement that type set for legislative publications be stored for future use.

It may be feasible to contract to private printing firms other legislative printing, commonly referred to as job order printing. In another section of this report it is recommended that a pilot study be made of agency printing to determine the relative advantages of private versus state printing. It is recommended that this procedure also be applied to legislative job order printing.

COSTS

Legislative printing costs billed by the State Printing Plant during the 1967–68 fiscal year were $2,211,368.52. This amount represented 12.5 percent of the printing plant's total sales for that year (see Table 1 which follows).

Table 1 LEGISLATIVE PRINTING COSTS 1967–68 FISCAL YEAR

	Total Costs	Percent Of Total Costs	Percent Of Cost For Composition	Percent Of Chargeable Hours For Composition
Session printing:				
Bills—original, amended, and enrolled	$653,607.53	29.557%	75.883%	80.620%
Journals	294,143.53	13.301	83.836	91.660
Histories	218,511.74	9.881	50.481	64.556
Files	103,906.81	4.699	64.222	72.552
Bill Index	72,628.35	3.284	72.891	83.190
Chapters	32,577.58	1.473	12.887	42.490
Senate Appendix Journal	8,979.53	.407	6.662	10.910
Senate Final Journal	36,918.72	1.669	63.426	70.322
Assembly Final Journal	31,615.88	1.430	68.327	72.226
Total session printing	1,452,889.67	65.701	70.546	77.343
Job order printing	745,168.95	33.697		
Legislative Bill Room printing	13,309.90	.602		
Total legislative printing	$2,211,368.52	100.000%		

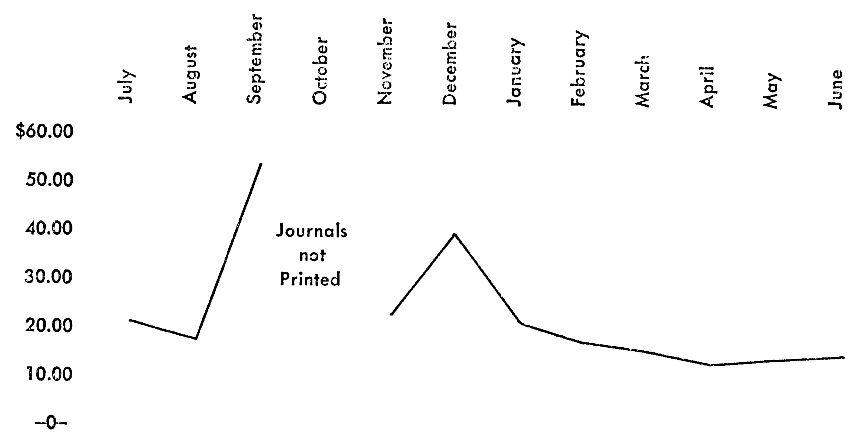
A comparison between the costs of legislative session printing done by private printers and the costs of printing done by the State Printing Plant cannot be made because no private printing firms currently provide a similar service. The Auditor General has, however, compared the time charged to the Legislature to hand set the print in lead (composition time) for the April and May 1968 legislative journals to production standards of the Printing Industry of America. The time charged for the composition of the legislative journals for April and May 1968 was approximately 200 percent of Printing Industry of America (PIA) production standards.

He further determined that the page costs for the composition of legislative journals for April and May

1968 were among the lowest of any months during the year (see Table 2 which follows).

Table 2

LEGISLATIVE JOURNALS—COST PER PAGE
1967–1968 FISCAL YEAR



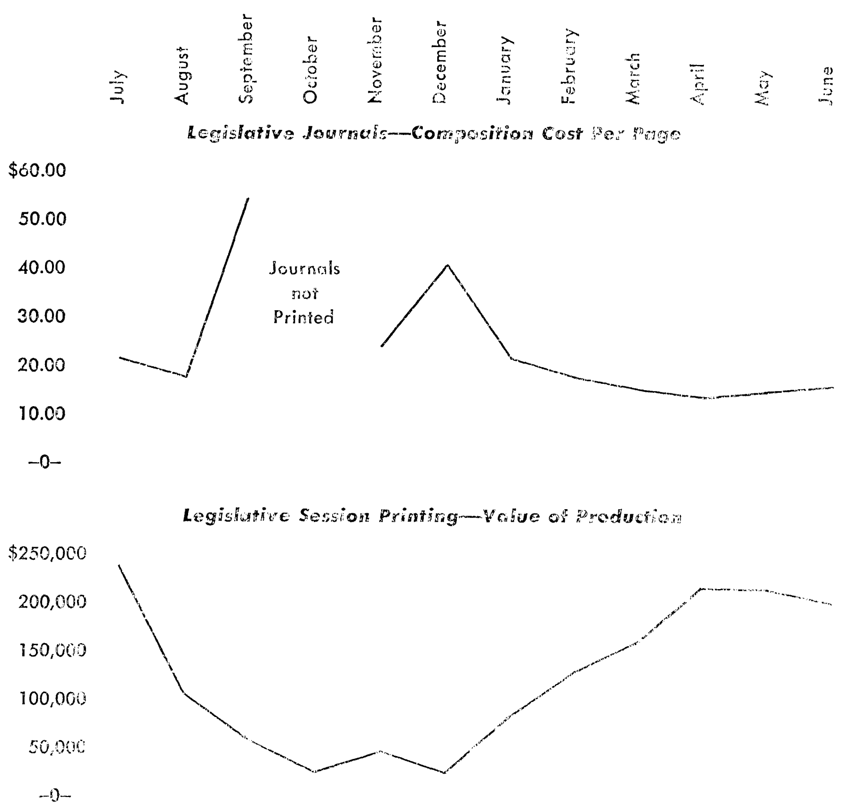
It is apparent that the costs of composition represent the largest single cost for legislative printing (71 percent in fiscal year 1967–68) and that the time charged for composition is exceptionally high when compared with PIA production standards. The percentage of nonproductive time recorded by the composing room of the State Printing Plant was unusually small, and production compared unfavorably to PIA production standards because the management of the State Printing Plant allowed foremen and workmen to record nonproductive time as productive time.

The plant's accounting system is designed to keep separate records of productive time and nonproductive time. The system is designed so that time reported as productive time is charged directly to jobs, and time reported as nonproductive time is prorated to all jobs on the basis of direct costs charged to jobs. The enforcement of the plant's time-reporting procedures would help to avoid charging excessive costs to any one job and help to avoid wide deviations from industry production standards.

Table 3 shows the changes in the per-page composition cost of the legislative journals and the volume of legislative session printing produced in each of the months of the 1967–68 fiscal year.

Table 3

COMPARISON OF MONTHLY PAGE COST OF LEGISLATIVE JOURNALS AND MONTHLY VALUE OF LEGISLATIVE SESSION PRINTING 1967–1968 FISCAL YEAR



It should be noted that the plant's cost center rates per hour (the basis for charging costs to legislative journal production) remained fairly constant throughout the year and that as the volume of legislative printing decreased, the composition cost per page of legislative journals increased. This increase in page costs during periods of low production indicates an overstaffed condition. The cost of legislative printing could be reduced through better scheduling of the printing workload.

TIME BETWEEN ORDER AND DELIVERY

The lapse of time between the order and delivery of legislative session printing is short when compared with commercial printing standards. Legislative session printing does, however, have first priority at the plant. Special procedures have been developed between the Legislature, Legislative Bill Room, and the Office of State Printing for handling publications necessary for carrying on the daily business of the Legislature. Emergency work orders are prepared for "rush" jobs, and on occasion one and one-half hours turnaround is provided on bills that must be printed at once. Overnight service is expected on daily files, and adequate service on bills is usually available except during times of peak loads.

In spite of the priority given to legislative printing, the Legislature has stated in SCR 108, 1968 Regular Session, that expeditious handling of legislative business is frequently and unecessarily impaired by delays in receipt of printing. Delays are experienced most frequently during the period immediately following the cutoff date for introduction of new legislation and toward the end of the legislative sessions. With the increased workload of the Legislature and the age of the equipment, it can be anticipated that the State Printing Plant will have increasing difficulty in meeting legislative schedules for printing service.

As shown in Table 1, 77 percent of the production time required to produce legislative session printing is used to hand set the type in lead. The remaining production time is used to print the session publications, using flatbed letter presses purchased by the state in 1910, and to bind the publications if necessary.

QUALITY

All Legislative session printing is printed on news print (the least expensive stock available) and the lines are justified so that all lines are the same length. Set type is proofread twice by proofreaders in the composing room at the State Printing Plant. Legislative session printing includes dark headings, centered headings, italics, strike out type, etc., which have explicit purposes and also make the publications easier to use. In our opinion, the quality of legislative session printing is good.

It would not be acceptable to use unjustified lines or eliminate other quality features because the type for informal publications such as daily journals is corrected and reused for formal publications such as the corrected journal and the final journal. The elimination of headings, italics, strike outs, etc., would cause an inconvenience to legislators, legislative staff, and the general public.

CURRENT SCHEDULING AND PRODUCTION METHODS

To meet the present delivery schedules and to provide the quality of printing now provided, the State Printing Plant schedules a large work force in the composing room to hand set the type from copy received from the Secretary of the Senate and the Chief Clerk of the Assembly, and to proofread the type before final copies are printed for distribution. The legislative session printing workload fluctuates depending on the schedule of the Legislature. During periods of peak legislative activity, overtime in the composing room accounts for more than 25 percent of the total hours worked. During the 1967–68 fiscal year as a whole, 13.5 percent of the hours worked in the composing room were overtime.

MODERNIZATION OF THE STATE PRINTING PLANT

There are numerous modern devices and methods that can be installed in the State Printing Plant to improve legislative printing as well as the overall operation of the plant and its service in printing textbooks and agency materials. SCR 108 directs that means of improving legislative printing service, including potential automation in the Office of State Printing be investigated. The Legislative Analyst's report in response to SCR 108 will cover potential automation in some detail.

Composition represents the most costly segment of the printing plant's operation (71 percent of the cost of legislative publications). Therefore, it is logical that automation of composing room tasks should have first priority in a modernization program. Today, high-speed photocomposition equipment is available using a cathode ray tube which places characters on film at a rate of 6,000 characters per second. When an electronic computer is utilized in connection with the photo-composer, it is possible to turn out copies that are justified, hyphenated,

and in formats of complete pages using a variety of type faces. The quality of legislative printing could therefore be preserved and improved since even line lengths, capitals, italics, strike outs, centered headings, etc., can all be accomplished with minimal effort. The only manual phase of this program is the operating of typewriter-like keyboards for placing the material into the system. The computer does not actually set the type but rather takes the output of a keyboard operator at typing speed and regulates the flow of material into the photocomposition device. The speed of the keyboard operator is therefore substantially increased over that of the operator using a linotype machine. Numerous proofreading steps will also be saved, depending of course on where the keyboards for original entry of the material are located.

Another major modernization that can logically follow the utilization of photocomposition equipment is the installation of offset presses to replace the current flatbed letter presses purchased by the state in 1910. These presses, because of their age, are barely able to maintain the present level of service to the Legislature. Offset printing, a method that uses plates photographically prepared from output of the photo-composer, would provide sharper imprints at much higher production speeds. In addition, legislative work could be produced on whiter grades of paper than the current newsprint.

The Office of State Printing has provided information about these methods described above and also developed estimates of the costs as well as the benefits brought about by a reduced labor force and improved service. These estimates will be discussed in detail in the reports on printing to follow. In addition, alternate methods of solving the problem of excessive time in composing of legislative material will be proposed.

TEXTBOOK PRINTING

In the 1967–68 fiscal year, $21,485,649 was budgeted to the Department of Education for publishing, purchasing, and shipping of free textbooks. The Department of Education records show that this appropriation has been accounted for as shown in Table 4.

Table 4

EXPENDITURE OF 1967–68 FUNDS BUDGETED FOR TEXTBOOKS

Printing of textbooks	$7,988,555
Royalties paid to publisher	8,255,909
Purchase of textbooks from publishers	2,359,604
Department of Education operating expenses	503,694
Unencumbered balance	2,377,887
Total	$21,485,649

Approximately 37 percent of the Department of Education's cost for the "printing of textbooks" was attributable to printing, binding, and materials for textbook printing contracted to private printers. The State Printing Plant supervised the printing of all textbooks during the past fiscal year. However, printing amounting to $1,090,813 and binding amounting to $359,307 were contracted to private printers by the State Printing Plant. Materials which constitute approximately 51 percent of the cost of printing textbooks were provided to the private printers by the State Printing Plant, bringing the total costs for printing, binding, and materials for the "printing of textbooks" contracted to private printers to approximately $2,950,000.

COSTS

Substantial savings have accrued to the state from printing textbooks rather than purchasing textbooks from the publishers. The publishers offer no discount for volume purchases. The price per textbook is the same to a government entity purchasing 100 textbooks as to a government entity purchasing 200,000 textbooks.

Schedules prepared by the Department of Education indicate that the costs to print textbooks plus royalties paid to publishers average 62 percent of the publishers' sales price.

In Table 5 below, we have summarized the results of our comparison of the State Printing Plant's estimated cost to print as submitted to the Department of Education in accordance with Section 2482 of the Education

Code, and the state's cost to have textbooks manufactured by private printers.

Table 5

ESTIMATED COST TO MANUFACTURE TEXTBOOKS IN THE STATE PRINTING PLANT COMPARED WITH THE STATE'S COST TO HAVE TEXTBOOKS MANUFACTURED BY PRIVATE PRINTERS

	Cost Of Textbooks			
	State printing plant's advance estimates	Private printers	State's printing plant's revised estimates	Ratio-state plant to private printers
Cost of materials	$578,328	$438,117	$438,117	100.00%
Cost of manufacture:				
Private printers' charges	--	513,949	--	--
State Printing Plant	--	24,842	--	--
Total cost of manufacture	449,213	538,791	449,213	83.37%
Total cost of materials and manufacture	$1,027,541	$976,908	$887,330	90.83%

All textbook jobs (ten) for which both the printing and binding were contracted to private printers, equaling 35 percent of the total cost of manufacturing contracted to private printers, were included in the comparison shown in Table 5. The State Printing Plant provides the materials to private printers. Therefore, the cost of materials is the same whether the textbooks are manufactured by the State Printing Plant or by private printers. Table 5 shows the State Printing Plant's revised estimates to be 91 percent of the charges for manufacture by private printers.

Unlike legislative printing, practically no composing room costs are incurred in textbook printing since plates are leased from the publishers. This factor makes the cost of producing textbooks more nearly comparable to private industry. Earlier it was illustrated that the time charged for composition of legislative materials is exceptionally high when compared to Printing Industry of America standards.

In the manufacture of certain textbooks only the printing was contracted out, and in other cases only the binding was contracted out. No formal schedules were pre-

pared to compare the plant's estimates with separate printing and binding costs of private printers. The plant's estimates, prepared two years in advance, were prepared to estimate the cost to manufacture on the plant's modern web presses, which combine printing and some binding functions to produce 32-page signatures which are sewed together to make a textbook. Textbooks manufactured in whole or in part by private printers were printed on flat sheets. The flat sheets were folded and processed in bindery operations to result in an end product comparable to the signatures produced by the web press.

A pilot study should be started to keep records of the costs of jobs and the various parts of jobs contracted to private industry and to compare these costs with the actual, rather than estimated, costs of the State Printing Plant on a continuing basis.

TIME BETWEEN ORDER AND DELIVERY

Textbooks were delivered to the Department of Education in time for distribution to schools before the beginning of the 1968–69 school year. During the 1967–68 school year the number of textbooks distributed was 21,113,675—almost double the previous high of 11,335,771 delivered during the 1965–66 school year. To accomplish this large printing workload for the opening of school in 1967, the State Printer had a choice of running the plant on a three-shift basis, rather than the customary two-shift schedule, or contracting out a substantial portion of the volume to private printer. In this instance, neither course of action was followed and approximately 45 titles representing 2,721,858 copies were produced late and therefore not delivered until November. The problem was compounded by a breakdown of the normal processing of textbook orders by the Department of Education due to backlogs in the data processing unit.

QUALITY

Textbooks manufactured by the State Printing Plant and textbooks contracted to private printers are manufactured to the same specifications and appear to be of equal quality. Textbooks manufactured appear to be of the same quality as the publishers' editions.

AGENCY PRINTING

Agency printing consists of a wide assortment of different types of printing. The feasibility of having some or all of this printing done by private printers and comparisons of the cost, the time between order and delivery, and quality must be made on the basis of a review of individual jobs.

COSTS

Cost center rates of the State Printing Plant generally compare favorably with rates recommended by the Printing Industry of America. However, in our review of time charged by production departments on a sample of ten jobs, the composing room charged time equal the 244 percent of Printing Industry of America production standards, and the time charged for offset printing was 133 percent of Printing Industry of America standards. In most instances the State Printing Plant does not keep records of the quantities shipped to customers, and therefore material spoilage could not be determined. The State Printing Plant should improve its system of production reporting and production control and should keep records of quantities of publications shipped to control the usage of material.

A pilot study should be initiated by the State Printer in which a cross section of agency jobs would be bid by private industry and the State Printing Plant and in which the lowest bidder would be awarded the job. Records should be kept to compare costs of various classifications of work.

TIME BETWEEN ORDER AND DELIVERY

Agency printing has been scheduled primarily as fill-in work for textbook and legislative printing. Agencies requiring printing service find it difficult to obtain service during rush periods. Although the State Printer has the authority by statute to contract out printing to private industry when the State Printing Plant is overloaded, records indicate that this is rarely done. Apparently, it has been the desire of the State Printer to retain the great majority of all printing. Our study indicates that agency printing should be contracted out during peak

workload periods to alleviate the need for the purchase of additional new equipment or excessive overtime salaries.

On the average, it takes 58 days to get an agency printing job through the State Printing Plant. Some jobs given special priority were delivered in a shorter period of time. The State Printing Plant has no formal system of priorities for agency printing, and a system of priorities should be developed.

QUALITY

The quality of work done by the State Printing Plant is equal to that done in private industry.

CHAPTER NINE
DEPARTMENT OF WATER RESOURCES

THERMALITO POWER CANAL CONSTRUCTION CONTRACT CHANGE ORDER No. 22

On September 1, 1965, the Department of Water Resources accepted bids for the construction of the Thermalito Power Canal, located between Thermalito Dam and Thermalito Forebay, a distance of approximately 2½ miles. The contract called for the completion of the project by August 7, 1967. The Contract Specifications showed canal excavation of an estimated 5,194,400 cubic yards of earth and rock. In addition, there were other excavation items of lesser amounts for special work such as ditches and special features. The department's engineering estimate of the cost of this project was $5,738,799.70. The firm of Morrison-Knudsen Company, Inc., was the successful bidder with a bid of $5,549,348. Expenditures on this contract totaled $7,061,409. This is $1,512,061, or 27.2 percent, over the original contract amount.

After the canal excavation provided for in the contract was substantially completed, several earth slides occurred along the sides of the canal. The department negotiated with the contractor and issued a change order to remove the slides at new, substantially higher prices than were provided for in the original contract.

The change order was the basis for compensating the contractor for additional costs incurred because of the slides, inclement weather, and acceleration of the remaining work. The power canal had to be operational by September 1967 or soon thereafter. If it were not, the downstream contractor could not complete his work on schedule, as he had to receive water from the power canal before he could complete his work.

The contractor proposed doing the slide correctional work for $1,173,100. The change order as approved on June 13, 1967, was for an estimated $986,861. The slide correction work actually cost the state $1,010,990.

A comparison of change order No. 22 estimated and actual expenditures, by classes of work, follows:

	Cubic Yards		Amount	
Description	Estimated	Actual	Estimated	Actual
Earthwork:				
Slide removal	412,763	426,130	$485,898	$504,329
Refill	151,059	157,927	172,610	178,308
Miscellaneous	Lump sum	Lump sum	62,709	62,709
Subtotal	563,822	584,057	721,217	745,346
Suspension of work	Lump sum	Lump sum	117,489	117,489
Acceleration of work	Lump sum	Lump sum	148,155	148,155
Total	563,822	584,057	$986,861	$1,010,990

The department's chief inspector on this project did not agree with the terms of the change order. According to his calculations the slide correction work should have cost about $406,589. The change order was for $986,861, or about $580,000 more than he calculated. In an endeavor to stop action on this change order he engaged private legal counsel. His complaint was brought to the attention of the Legislature, after which the Auditor General was requested to look into this matter further.

The Auditor General reviewed the Department of Water Resources' administration of the Thermalito Power Canal construction contract change order No. 22. His examination included numerous conferences with various departmental personnel associated with this project both in Sacramento and in Oroville. He reviewed the files of correspondence, estimating unit's working papers, inspectors' daily reports, and the chief inspector's force account calculations relating to the project.

The review indicated that the department could have exercised better control in administering this change order. It appears that weaknesses in operating procedures, duty assignments and organizational structure, as well as lack of care on the part of the personnel administering the change order contributed to poor administration of this change order. Based on the review it appears that savings of over $300,000 could have been made if

stricter application of contract provisions had been followed by the department in administering this change order.

We are recommending that the department review its operating procedures, delegation of duties, and organizational structure relative to change order administration and make the changes considered necessary to insure that the state's interests are adequately protected.

CHAPTER TEN

DEPARTMENT OF HARBORS AND WATERCRAFT

CITY OF AVALON SMALL CRAFT HARBOR LOANS

In accordance with a request by the Joint Audit Committee, the Auditor General has conducted a review of the Small Craft Harbor planning and construction loans made by the Department of Harbors and Watercraft to the City of Avalon.

The Auditor General issued previous reports by letters dated October 13, 1967 and August 14, 1968 which are appended to this report as Addenda A and B.

The present report summarizes information obtained to December 1968, including that obtained from the City, the Department, and from a hearing held in Avalon by the Joint Audit Committee on August 22, 1968.

On October 22, 1968 the Auditor General's staff made a brief review of the City's accounting records relating to harbor and loan funds, and obtained the accountant's reports on the City of Avalon for the fiscal years ended June 30, 1967 and 1968.

Loans have been made by the department to the city under four separate agreements as follows:

Planning loan agreements:		
Dated December 21, 1961	$11,000	
Dated July 18, 1966	3,500	$14,500
Construction loan agreements:		
Phase I, dated November 21, 1966	750,000	
Phase II, dated November 27, 1967	1,750,000	2,500,000
Total loans made		$2,514,500

PLANNING LOANS

Loans totaling $14,500 were made to the city for planning and feasibility studies; $11,000 by agreement dated December 21, 1961 and $3,500 by agreement dated July

18, 1966. The city has been repaying these loans with interest in installments in accordance with the agreements. The unpaid balance at June 30, 1968 was $5,432. The final installment is scheduled to be repaid in 1971. The city expended $15,000 for a planning and feasibility study prepared by Moffatt and Nichol, Engineers. The $14,500 loan proceeds plus $500 of city funds were used to pay for the study.

CONSTRUCTION LOANS

Phase I Construction Loan

As previously reported (see Addendum B), $750,000 was loaned to the city from the Small Craft Harbor Fund under a loan agreement dated November 21, 1966. The loan was made to provide funds for the construction of a breakwater (Cabrillo Peninsula) on the southeast side of Avalon Harbor. The project was completed about August 15, 1967. The city expended a total of $782,015 for the construction of this breakwater, which was $32,015 in excess of the amount of the state loan. The accounting treatment and disposition of this $32,015 excess expenditure is discussed further in this report in the section on the City of Avalon accounting records.

Phase II Construction Loan

The Department of Harbors and Watercraft entered into a loan agreement on November 27, 1967 with the City of Avalon for the Phase II construction loan in the amount of $1,750,000. As detailed in Addendum A, this loan was made for the construction of a north breakwater, known as the Casino Mole; paving of the Cabrillo Peninsula, the south breakwater that was constructed with Phase I loan funds; construction of a quay or marginal pier adjacent to Pebbly Beach Road; construction of a berthing facility for commercial seagoing common carriers; landing floats, buildings and other miscellaneous harbor improvements.

The Phase II loan had originally been proposed as a $1,250,000 loan, but Item 287 of the Budget Act of 1967 provided that:

> ". . . none of this money shall be expended for a construction loan to the City of Avalon for any project unless the Harbors and Watercraft Commission de-

termines that such project will provide berthing facilities for commercial seagoing common carriers which will be at least equal to the existing facilities in Avalon Harbor currently being used by commercial seagoing common carriers in providing a safe landing for ships and passengers."

The project was then expanded to include the cost of constructing a berthing facility for seagoing common carriers, and the amount of the loan was increased by $500,000. On November 27, 1967 the Harbors and Watercraft Commission determined that the project would provide the required berthing facility and approved the Phase II loan in the amount of $1,750,000. The department then executed a loan agreement with the city providing for interest at 4 percent per annum and a term of 30 years starting with the date of the issuance of the first warrant to the city on the loan. The agreement also provides that interest and principal payments may be deferred as determined by the state for a period not to exceed three years. If the payment of the interest is deferred, it shall be added to the original amount of the loan to become part of the principal. The principal and interest so compounded shall be repaid in equal annual installments over the remaining years of the loan term. The Phase I loan agreement contained similar provisions relating to the $750,000 loan. The department's feasibility study shows that the city will be required to make level annual payments of approximately $174,550 when making repayments on the total loan of $2,500,000; $52,000 on the Phase I loan and $122,550 on the Phase II loans.

Loan Advances

An advance of $150,000 was made to the city from Phase II loan funds on October 18, 1968, making the total advances from Phase II loan funds to that date $1 million. The city has expended $776,987, leaving an unexpended balance of $223,013 at October 18, 1968. The city has credited the Phase II loan fund with interest earned on the investment of the advances held by the city in the amount of $2,688 so that the cash balance in the Phase II loan fund maintained by the city amounted to $225,701 on October 21, 1968. The average daily unexpended balance of Phase II loan advances held by the city during the 241 days from February 23, 1968, the

date the first advance was received, to October 21, 1968, the date we examined the city's records, has been approximately $138,300.

The average daily balance of the Phase I loan advances for the 233 days from March 27, 1967 to November 2, 1967, when the final payment was made, was about $118,000. During the period from November 2, 1967 to February 23, 1968 the city had no balance of advances from the state. The city is committed to pay 4 percent interest on amounts received from the state starting with the date of the state warrant making the advance.

Berthing Facility

In his report of August 14, 1968, (see Addendum A) the Auditor General stated that the department was withholding approval of a contract for the construction of the berthing facility required by Item 287 of the Budget Act of 1967. The city had received bids on April 8, 1968 for the construction of a berthing facility which would comply with the provisions of the Budget Act. The low bidder was the Healy Tibbitts Construction Co. with a bid of $441,271. A contract was drawn for the work. Before the contract was approved by the department it became apparent that the one oceangoing vessel that had been using the harbor would probably not operate during the 1968 summer season or subsequent seasons. The department therefore held up its approval and the Auditor General reported that, as of August 1, 1968, the contract had not been approved.

The department subsequently received a legal opinion which stated that the language of Item 287 does not authorize expenditure of funds appropriated thereunder for berthing facilities not equal to existing berthing facilities in Avalon Harbor. The department, on September 12, 1968, granted its approval to the contract. We were informed on October 21, 1968, that actual construction would start about October 24, 1968. Subsequently (on December 19, 1968, we were informed that the construction of the berthing facility was progressing satisfactorily, so that it appeared it would be completed before the contract completion date of March 11, 1969. Also, the city advertised bids for construction of the remaining work so that it would be completed by June 1, 1969.

FINANCIAL FEASIBILITY

The department issued its financial and engineering feasibility review in November 1967. In its review the department determined that the project is economically justified (the economic benefits will exceed the costs) and that it is engineeringly and financially feasible. Over the 30-year loan term, the total revenues from project operations are expected to amount to $11,086,300 and total expenditures, including administration, maintenance, depreciation, and loan repayment, will amount to $9,407,-350. This makes the revenue-to-cost ratio amount to 1.18 to 1.00.

Estimated Revenues

The department estimates annual revenues of the harbor project to amount to $375,200 when the project is complete and the expected additional 97 moorings provided by the project have been constructed and rented. The projected revenues have been classified into three general classes.

Class	Estimated Annual Revenue
Mooring revenue	$154,600
Taxes and wharfage fees	162,000
Leases and concession fees	58,600
Total estimated annual revenue	$375,200

The feasibility report estimates that this revenue will increase by fiscal years as follows:

Fiscal Year	Mooring	Wharfage Fees and Taxes	Leases and Concessions	Total
1967–68	$103,000	$42,000	$16,000	$161,000
1968–69	103,000	42,000	16,000	161,000
1969–70	103,000	162,000	45,300	310,300
1970–71	103,000	162,000	58,600	323,600
1971–72 and thereafter	154,600	162,000	58,600	375,200
Total for repayment period	$4,586,200	$4,782,000	$1,718,100	$11,086,300

Actual harbor revenue for the 1967–68 fiscal year amounted to $189,800, of which approximately $177,000 would have been applicable to the project area if separate accounting had been required during the whole fiscal year. This compares favorably with the $161,000 used in the projection.

It is estimated that mooring revenue will increase by $51,600 because of the availability of 97 new moorings that will be developed by the project and from a proposed increase in fees.

An increase of $120,000 in wharfage fees is projected after Phase II construction is completed and all carriers now operating from the privately owned steamer pier will land at the city-owned wharf or docks and be subject to the wharfage fee.

It is expected that the annual income from leases and concessions will increase to an estimated $58,600 from the $16,000 that has been earned during the past several years when the harbor is fully developed.

Estimated Expenses

The department estimates that the expenses of administration, maintenance, and depreciation will increase from the present $109,000 to $152,850 when the project is completed. The annual loan repayment for both Phase I and Phase II loans will amount to $174,550, making the total annual expenditures amount to $327,400. Since the annual revenues are estimated to increase to $375,200, the annual revenues are expected to be $47,800 more than the estimated annual expenses.

These expenses are projected to increase by fiscal years as follows:

Fiscal Year	Loan Repayment	Administration, Maintenance, and Depreciation	Total
1967–68		$109,000	$109,000
1968–69		152,850	152,850
1969–70		152,850	152,850
1970–71	$52,073	152,850	204,923
1971–72 and thereafter	174,550	152,850	327,400
Total for repayment period	$4,712,850	$4,694,500	$9,407,350

The actual cash receipts and disbursements of harbor funds for the year ended June 30, 1968 amounted to $189,800 and $186,500, respectively. These amounts, however, include some amounts that are not applicable to the project area. The Auditor General has deleted these amounts in order to arrive at cash receipts and disbursements that would be applicable to the project area for the full fiscal year. (Separate accounting for project area funds was not required until September 1, 1967.) On this basis, the cash receipts and disbursements applicable to the project area are $177,000 and $142,000, respectively.

The following tabulation compares the above amounts with the estimated amounts included in the department's feasibility report for the fiscal year 1967–68:

	Actual as Adjusted	Per Feasibility Report	Actual Over (Under) Feasibility Report
Revenues	$177,000	$161,000	$16,000
Expenses	142,000	109,000	33,000
Excess of revenues over expenses	$35,000	$52,000	$(17,000)

As can be seen, both the actual revenues and expenses were in excess of the estimate, with the increase in expenses being $17,000 more than the increase in revenues.

CITY OF AVALON ACCOUNTING RECORDS

The auditors of the Department of Parks and Recreation, as representatives of the Department of Harbors and Watercraft, audited the records of the City of Avalon pertaining to the loan agreements upon the completion of the Phase I construction and stated in their audit report of June 17, 1968 that:

(1) The city has financed the $32,015.21 excess expenditures on Phase I from state loan funds received for Phase II construction despite the fact that the Department of Harbors and Watercraft had notified the city that under the terms of the loan agreement all costs in excess of $750,000 for Phase I construction must be borne by the city

(2) The city has not established separate fund accountability for Phase I and for Phase II loan funds as provided in the loan agreements.

(3) The city has not established a separate fund to account for revenues and expenditures pertaining to facilities located within the "project area" in accordance with the terms of the agreement.

These matters were discussed by the Joint Legislative Audit Committee with city officials at the committee meeting held in Avalon on August 22, 1968. The city officials stated that the city's auditor was in the process of examining the accounts of the city for the fiscal year ended June 30, 1968 and that upon completion of his examination the necessary transfers and adjustments would be made to correct the deficiencies reported by the auditors representing the Department of Harbors and Watercraft.

On October 22, 1968 the Auditor General reviewed the city's accounting records pertaining to the harbor and loan funds. He found that the city had made the transfer entries effective as of June 30, 1968, transferring $32,015 from city funds to the construction loan fund to cover the deficit that had existed in the Phase I Construction Loan Account. A transfer of $31,337 was made from the city's Harbor Fund and $678 from its General Fund. Consequently, this matter now has been corrected and the $32,015 has been charged against city funds rather than against state loan funds as reported by the departmental auditors.

The Auditor General also found that separate fund accountability for Phase I and Phase II loan funds has now been established. Schedule 1 shows the monthly balances in the construction loan accounts and the total amount the city treasurer had on deposit with the Security National Bank for all funds, except the Municipal Hospital Fund, for the 20 months from January 1967 through August 1968.

The city now also has established a separate fund to account for revenues and expenditures pertaining to facilities located within the "project area" in accordance with the terms of the loan agreement.

On October 22, 1968 the City Council of the City of Avalon, by resolution No. 1337, opened a separate bank

account with the Security National Bank entitled "Avalon Small Craft Harbor Project, Phase II, Construction Loan Account" in the City Treasury. This bank account is to be used for the deposit of loan advances received under the Phase II loan agreement. This should prevent the creation of a deficit in the Phase II Construction Loan Account in the future.

At its meeting of August 22, 1968, the Joint Legislative Audit Committee expressed concern over the fact that money received by the city for its harbor fund, which constitutes the city's tideland trust fund, was not deposited in a separate bank account but was commingled with money received that belonged to other city funds.

A separate harbor fund has been maintained by the city to account for tideland revenues. Cash received which belongs to the harbor fund is deposited with the city treasurer to the credit of the harbor fund. The city treasurer, who by law is the legal depository for all city money, deposits all city money in one or more bank accounts or invests it in government securities or time deposits. He does not maintain separate bank accounts by specific funds, whether trust funds or other. This procedure appears to be the general practice of city treasurers in the state, and we have found no statute that requires the city treasurer to create a separate bank account for tideland trust funds.

Avalon officials stated that to create a separate bank account for harbor funds would add complexities to their accounting system, and that they are not now planning on opening such separate bank account.

The Auditor General has been informed that personnel from the State Lands Division visited the City of Avalon during the latter part of November to review the city's administration of tidelands and related revenue. The city treasurer agreed with these representatives that he would separately identify investments of harbor funds and deposit the earnings from such investments in the Avalon Small Craft Harbor Project Operating and Loan Repayment Fund. The Auditor General was not informed of any other changes requested of the city in its administration of tideland revenue.

1969 Developments in Avalon Harbor

A number of frustrating and difficult problems were experienced by the City of Avalon during the 1969 summer tourist season.

Due to labor difficulties the S.S. Catalina (the largest passenger vessel serving Avalon) did not resume service until June 14, 1969, and until the end of the season on September 28, 1969 this vessel encountered many problems in utilizing the new steamer pier.

The new City-owned pier is located outside the harbor breakwater and requires the S.S. Catalina to berth broadside to the open ocean. As a consequence, the severe ocean surge condition historically present in the Avalon area made safe berthing of the vessel extremely difficult.

M.G.R.S., Inc. (the company operating the S.S. Catalina) estimates that approximately $15,000 had to be expended for roller shocks, special tie-up lines, welding, and overtime for crewmembers due to the berthing conditions. Also, the company believes that it lost considerable patronage due to tourists reading newspaper accounts of landing conditions.

In addition, the S.S. Catalina broke a total of 27 pilings at the new steamer pier during the course of the summer season. The City of Avalon was required to replace the broken pilings at a cost of approximately $24,000 to the Avalon Harbor Fund.

The State Department of Harbors and Watercraft, the City of Avalon, and the engineering firm of Moffatt and Nichol maintain that the S.S. Catalina can be docked safely at the new pier if certain tie-up procedures are followed.

However, M.G.R.S., Inc. and the Captain of the S.S. Catalina insist that almost all possible tie-up procedures have been tried, and the location of the new pier has made a safe and smooth landing operation impossible.

The old steamer pier, at which the S.S. Catalina docked for many years, was removed before the 1969 summer season and this facility is not now available.

Due to widespread publicity of the S.S. Catalina docking problem in the Los Angeles and Long Beach harbor areas, and as a result of the concern expressed by the principals involved, the Joint Audit Committee met in

Avalon on September 23/24th and on November 10, 1969 to review the situation.

Considerable testimony was taken by the Committee from all participants to the problem, including the two engineering companies originally retained by the City, past and present members of the City Council, the State Department of Harbors and Watercraft, and officials of M.G.R.S., Inc.

Despite two meetings on the subject and a large volume of testimony, the Joint Committee is not yet in a position to establish the effect this situation will have on the ability of the City of Avalon to repay the State loan on the due dates.

Therefore, the Joint Committee is planning a further meeting in January 1970, and expects to release a full and detailed report on the subject after that date.

Schedule 1

CITY OF AVALON MONTHLY CASH BALANCES OF THE CONSTRUCTION LOAN ACCOUNTS AND TOTAL OF CASH BALANCES OF ALL CITY FUNDS—JANUARY 1967 THROUGH AUGUST 1968

Month	Construction Loan Funds			Total Amount on Deposit (All Funds)
	Phase I	Phase II	Total	
1967				
January	--	--	--	$181,146
February	--	--	--	227,093
March	$100,000	--	$100,000	312,392
April	29,191	--	29,191	218,164
May	271,925	--	271,925	484,334
June	120,809	--	120,809	299,885
July	163,020	--	163,020	312,188
August	69,802	--	69,802	243,170
September	70,086	--	70,086	248,977
October	71,126	--	71,126	251,441
November	(32,015)	--	(32,015)	78,217
December	(32,015)	--	(32,015)	138,229
1968				
January	(32,015)	--	(32,015)	201,970
February	(32,015)	$267,700	235,685	450,619
March	(32,015)	187,586	155,571	363,352
April	(32,015)	93,862	61,847	264,579
May	(32,015)	110,932	78,917	309,076
June	--	106,552	106,552	272,921
July	--	136,658	136,658	293,931
August	--	136,537	136,537	290,797

Notes:

The cash account in the Phase I Construction Loan Fund showed a deficit balance of $32,015 during the months of November 1967, December 1967, and January 1968.

During the months of February, March, April, May, and June 1968 the Phase I and Phase II Loan Funds were merged on the books of the city.

As of June 30, 1968, entries were made by the city's auditors to transfer $32,015 from city funds to the construction loan funds to offset the $32,015 deficit in the Phase I Construction Loan Fund cash account.

The total amount on deposit—all funds column shows the total amount the city had on deposit with the Security Pacific National Bank in the city's general account, time deposits, and in U.S. Treasury Bills except for the Avalon Municipal Hospital Account. It includes the amounts shown in the construction loan funds columns.

William H. Merrifield, C.P.A.
Auditor General

Addendum A
John W. Shoemaker, C.P.A.
Deputy Auditor General

State of California

OFFICE OF THE AUDITOR GENERAL

ROOM 430, STATE CAPITOL
SACRAMENTO, CALIFORNIA 95814

August 14, 1968

Honorable Vincent Thomas
Chairman
Joint Legislative Audit Committee
State Capitol
Sacramento, California

Dear Mr. Thomas:

We have made a follow-up review of the files and records of the Department of Harbors and Watercraft relating to loans made to the City of Avalon for harbor improvements. We reported on our previous review of the department's files and records relating to the Avalon harbor loan by letter dated October 13, 1967.

The harbor improvements are divided into two distinct phases. Phase I is for the construction of a breakwater located on Cabrillo Peninsula, which is on the south side of the harbor. Phase II is for the construction of a north breakwater (Casino Mole) and the Cabrillo Wharf to accommodate seagoing common carriers, and for completion of the harbor development with marginal fill, public landing floats, etc.

PHASE I

Item 355(b) of the Budget Act of 1966 appropriated $750,000 from the Small Craft Harbor Revolving Fund for a loan to the City of Avalon for Phase I. The loan was made to the city in the following installments:

March 27, 1967	$100,000
May 10, 1967	500,000
July 27, 1967	150,000
Total amount of loan	$750,000

The project was completed about August 15, 1967 at a total cost of $782,015, or $32,015 more than the state loan, as shown in the following schedule:

Connolly-Pacific Co.—construction contract	$740,802
Moffatt and Nichol, Engineers—engineering and inspection services	36,742
Marine Advisors—marine biology study	4,471
Total expenditures	782,015
Amount of loan	750,000
Excess of expenditures approved over the amount of the loan	*$32,015

* This amount has been reduced from the previously reported $34,516 because the city subsequently received a refund of inspection service charges.

As previously reported, the financing of this $32,015 excess of expenditures over the amount of the loan is the responsibility of the city, and the city has been so notified by the Department of Harbors and Watercraft. The city, however, used part of the proceeds of the Phase II loan to finance this overexpenditure on Phase I, as reported hereinafter.

The loan agreement for the Phase I construction loan provides for a loan of $750,000 at 4 percent interest per annum for a term of 30 years commencing on the day of issuance of the first warrant for such loan. The first warrant was issued March 27, 1967. Under the loan agreement, interest and principal payments may be deferred for a period not exceeding three years, and according to the repayment schedule they have been deferred. The repayment schedule provides for a payment of principal and interest of $52,072.90 on August 1, 1971 and each August 1 thereafter through 1996, with a final installment of $52,074.34 to be made on March 27, 1997.

The loan agreement provides that the repayment shall be made from all sources of revenue derived from the project area, which shall include, but not be limited to, (1) wharfage and dockage fees, (2) booth and locker rentals, (3) comfort stations, (4) percentage return to the city on concession leases, (5) 4 percent admission tax on excursion boats, (6) revenue to be derived from the rental of moorings in the project area, (7) annual mooring transfer fees, and (8) all other additional revenues as may be derived in the project area.

PHASE II

The Phase II loan amounts to $1,750,000. It had originally been proposed as a $1,250,000 loan, but Item 287 of the Budget Act of 1967, provided that:

> ". . . none of this money shall be expended for a construction loan to the City of Avalon for any project unless the Harbors and Watercraft Commission determines that such project will provide berthing facilities for commercial seagoing common carriers which will be at least equal to the existing facilities in Avalon Harbor currently being used by commercial seagoing common carriers in providing a safe landing for ships and passengers."

In order to comply with this provision, the project was expanded to include the cost of constructing a berthing facility for seagoing common carriers, and the amount of the loan was increased by $500,000. On November 27, 1967 the Harbors and Watercraft Commission determined that the project provides berthing facilities for commercial seagoing common carriers which will be at least equal to the existing facilities and approved the Phase II loan of $1,750,000. A loan agreement was then executed with the city on the same date for the Phase II loan of $1,750,000.

Advances have been made to the city on the Phase II loan totaling $850,000 as of July 31, 1968. These advances were made on the following dates:

February 21, 1968	$300,000
April 10, 1968	200,000
May 20, 1968	200,000
May 26, 1968	150,000
Total advanced to date	$850,000

Addendum Number 1 to the financial and engineering feasibility review dated November 1967, which was prepared by the Department of Harbors and Watercraft

estimated that the features of Phase II would cost as follows:

Estimated cost, excluding berthing facility:		
Casino Mole—construction of a north breakwater		$515,000
Cabrillo Peninsula paving, including seaplane ramp—paving of the south breakwater constructed with Phase I funds		83,000
Cabrillo Quay—construction of a quay or marginal pier adjacent to Pebbly Beach Road		129,000
Landing floats—floating docks for various small cross-channel carriers and tour boats		140,000
Building—restroom and rental locker building		50,000
Miscellaneous—demolition of the existing pleasure pier and the salt-water pumping plant, widening and paving Pebbly Beach Road, and utilities		127,000
		1,044,000
Provision for contingencies		117,000
Engineering and inspection costs		83,000
Total estimated cost, excluding berthing facility		1,244,000
Estimated cost of berthing facility:		
Cabrillo Wharf—construction of a berthing facility for commercial seagoing common carriers	$354,740	
Provision for contingencies	78,960	
Engineering and inspection costs, including oceanographic study	72,300	
Total estimated cost of berthing facility		$506,000
Total estimated Phase II costs (amount of loan)		$1,750,000

Contracts for construction have been granted by the city totaling $669,998, and payments thereon have been approved by the department in the amount of $605,010. In addition, $109,832 has been approved for payment for engineering, design and inspection, and for special studies and investigations, making a total of $714,842 of authorized expenditures through July 31, 1968 from Phase II advances.

Following is a schedule of the construction contracts granted and the payments authorized to be made thereon:

Contract	Contract Amount, Including Change Orders	Payments Authorized	Status of Project
Connolly-Pacific Co., dated 2/27/68:			
Construct Casino Breakwater	$564,770	$509,292	Work completed
Construct Cabrillo Quay	68,173	58,663	90% complete
Robert W. Lynam, dated 3/7/68:			
Pave seaplane ramp on Cabrillo Peninsula	37,055	37,055	Final payment 7/2/68
Total	$669,998	$605,010	

Payments have also been approved by the department for the following engineering, design, study, and inspection work:

Moffatt & Nichol, Engineers—engineering, design, and inspection services	$66,341
Ocean Science and Engineering, Inc.—investigation of alternate landing site, including preliminary pier design	32,300
Economic Research Associates—feasibility study of Avalon Bay Improvements	11,191
Total	$109,832

The city on February 15, 1968 entered into an agreement with William L. Pereira & Associates for a study known as the "Avalon Harbor Feasibility Plan" at a fee of $12,500 plus $1,000 for expenses. The amount to be paid from state loan funds is to be limited to $7,500 with the city paying the balance. No payments had been approved by the department on this study as of August 1, 1968.

Construction contracts had not been entered into for the following features by August 1, 1968:

Cabrillo Wharf—construction of a berthing facility for seagoing common carriers. As explained in the following section, a low bid of $441,271 was received for this work but no contract has yet been executed. The original estimate for this work amounted to $354,740 plus a contingency amount of $78,960.

Cabrillo Peninsula paving, other than the seaplane ramp—estimated cost	$43,000
Landing floats—estimated cost	$140,000
Building—estimated cost	$50,000
Miscellaneous—estimated cost	$127,000

Berthing Facility

The department, in its feasibility study, estimated that it would cost $506,000 to provide the berthing facilities for commercial seagoing common carriers required by Item 287 of the Budget Act of 1967. This amount of money is provided in Phase II, and the berthing facility is included in the plan. No construction, however, has been started. A total of $57,300 has been expended to date for investigation and design costs, consisting of the $32,300 paid to Ocean Science and Engineering, Inc. for its study and $25,000 paid to Moffatt & Nichol for the final design of the facility.

Bids were received and opened on April 8, 1968 for the construction of the berthing facility to consist of a concrete wharf approximately 400 feet in length to be located on the seaward side of Cabrillo Peninsula. The Healy Tibbitts Construction Co. was the low bidder with a bid of $441,271, and it was chosen to do the work. A contract has been drawn for the work but it had not been approved by the department as of August 1, 1968. The S.S. Catalina, a privately owned vessel with a capacity of 2,000 passengers, has for many years furnished transportation during the summer season between the mainland and Catalina Island. This summer the operators of the steamship have experienced labor difficulties, and the steamship has not been in operation. The owners have not assured the city or the state that the steamship will be in operation in future seasons. No other need is known for the docking facility by the department at the present time, and the department is taking the position that it would not be in the best interest of either the city or the state to make the expenditure to construct the berthing facility if there is no assurance that such facility will be used. It therefore appears that the berthing facility will not be constructed unless the owners of the S.S. Catalina assure the state that they will be using the berthing facility or some other use can be found for it. The department has asked the owners of the S.S. Catalina for their future plans and are awaiting a reply from them.

AUDIT OF CITY RECORDS

The auditors of the Department of Parks and Recreation have audited the records of the City of Avalon pertaining to the Construction Loan Agreement dated November 21, 1966 under which the state loaned the city the sum of $750,000 for Phase I construction to improve its Avalon Small Craft Harbor Project. They issued their audit report under date of June 17, 1968.

The report states that:

(1) The city has financed the $32,015.31 excess expenditures on Phase I from state loan funds received for Phase II construction despite the fact that the Department of Harbors and Watercraft had notified the city that under the terms of the loan agreement all costs in excess of $750,000 for Phase I construction must be borne by the city.

(2) The city has not established separate fund accountability for Phase I and for Phase II loan funds as provided in the loan agreements.

(3) The city has not established a separate fund to account for revenues and expenditures pertaining to facilities located within the "project area" in accordance with the terms of the agreement.

In a memorandum dated July 22, 1968, the City Manager stated that ". . . these items have been discussed with our Director of Finance and auditor. The entries and modifications of bookkeeping methods which they suggest, will be accomplished within the next two or three weeks." This reply does not clearly state that they intend to repay the state fund from city funds at this time. It should also be pointed out that the agreement provides that the city is to deposit the advances received from the state in a separate fund or account and that the release of such funds by the city to cover construction and related engineering services incurred is subject to prior written approval of the state. Any payments made from these advances without prior approval of the state is therefore in contravention of the agreement.

We are attaching a schedule of estimated costs, contracts awarded, and payments approved by the department from Phase II funds from November 27, 1967 (the date of the loan agreement) to August 1, 1968. This schedule shows that contracts have been awarded amounting to $779,798 and that payments of $714,842 have been authorized during this period.

Sincerely yours,
WILLIAM H. MERRIFIELD
Auditor General

Attachment
cc: Members of the Joint
Legislative Committee

Department of Harbors and Watercraft

CITY OF AVALON—PHASE II LOAN SCHEDULE OF ESTIMATED COSTS, CONTRACTS AWARDED, AND PAYMENTS APPROVED NOVEMBER 27, 1967 TO AUGUST 1, 1968

Facility and Contractor	Estimated Costs Per Feasibility Study	Contracts Awarded	Amounts Approved For Payment To Date
Casino Mole	$515,000	--	--
Contractor—Connolly Pacific Co.			
Project completed, final payment not yet made	--	$564,770	$509,292
Cabrillo Peninsula Paving			
Seaplane ramp paving	40,000	--	--
Contractor—Robert W. Lynam			
Project completed, final payment 7/2/68	--	37,055	37,055
Additional paving—not contracted	43,000	--	--
Cabrillo Quay	129,000	--	--
Contractor—Connolly Pacific Co.			
Approximately 90% complete	--	68,173	58,663
Landing floats—not contracted	140,000	--	--
Building—not contracted	50,000	--	--
Miscellaneous—not contracted	127,000	--	--
Provision for contingencies	117,000	--	--
Engineering and inspection costs	83,000	--	--
Moffatt & Nichol, Engineers—design	--	33,000	33,000
Moffatt & Nichol, Engineers—inspection fees	--	--	8,341
Economic Research Associates—study	--	12,000	11,191
William L. Pereira & Associates—study	--	7,500	--
Berthing facility (Cabrillo Wharf)	354,740	--	--
Healy Tibbitts Construction Co.			
Bid 4/8/68—$441,271			
Contract not yet awarded			
Provision for contingencies—Cabrillo Wharf	78,960	--	--
Engineering and inspection—Cabrillo Wharf	72,300	--	--
Ocean Science and Engineering—study	--	32,300	32,300
Moffatt & Nichol, Engineers—final design	--	25,000	25,000
Total	$1,750,000	$779,798	$714,842

William H. Merrifield, C.P.A.
Auditor General

Addendum B
John W. Shoemaker, C.P.A.
Deputy Auditor General

State of California

OFFICE OF THE AUDITOR GENERAL
ROOM 430, STATE CAPITOL
SACRAMENTO, CALIFORNIA 95814

October 13, 1967

Honorable Vincent Thomas
Chairman
Joint Legislative Audit Committee
State Capitol
Sacramento, California

Dear Mr. Thomas:

We have reviewed the files and records of the Department of Harbors and Watercrafts relating to the Small Craft Harbor Construction Loan in the amount of $750,000 made to the City of Avalon by Item 355 (b) of the Budget Act of 1966.

This loan of $750,000 was made to finance the first phase of a project that was originally planned as a two phase project. It was made to provide funds for the construction of a south breakwater (Cabrillo Peninsula) in Avalon harbor. Phase two is a request for a loan to finance the construction of a north breakwater (Casino Mole) and to complete the harbor development with marginal fill, public landing floats, new moorings, etc. A loan of $1,250,000 was approved by the Legislature in Item 287 of the Budget Act of 1967. This appropriation, however, contained the following restrictive language:

> ". . . provided, that none of this money shall be expended for a construction loan to the City of Avalon for any project unless the Harbors and Watercrafts Commission determines that such project will provide berthing facilities for commercial seagoing common carriers which will be at least equal to the existing facilities in Avalon Harbor currently being used by

commercial seagoing common carriers in providing a safe landing for ships and passengers."

The studies necessary to design adequate berthing facilities for commercial seagoing carriers are currently under way. Provision for such landing facilities is necessary before the commission can approve any expenditures from phase two funds. The Department of Harbors and Watercrafts has designated the construction of these landing facilities as phase three and has proposed a loan of $500,000 for this purpose for inclusion in the 1968–69 budget. We have been informed that the Harbors and Watercrafts Commission intends to consider the berthing studies at its meeting of November 20, 1967. So far, no money has been advanced by the State from the phase two loan of $1,250,000.

The $750,000 first phase loan was advanced by the State to the city on the following dates:

March 27, 1967	$100,000
May 10, 1967	500,000
July 27, 1967	150,000
Total amount of loan	$750,000

Expenditures of loan proceeds were approved by the Department of Harbors and Watercrafts to the following contractors:

Connolly-Pacific Co.—Construction contract	$740,802
Moffatt & Nickols Engineers—Engineering and inspection services	39,243
Marine Advisors—Marine biology study	4,471
Total expenditures approved	784,516
Amount of loan	750,000
Excess of expenditures approved over the amount of the loan	$34,516

The City of Avalon will have to provide for the payment of the $34,516 excess expenditures since the State is committed for only $750,000 on this phase of the project.

In summary, the State has loaned $750,000 to the City of Avalon for construction of phase one. Approved expenditure documents show that the city has expended $784,516 on the project or an amount of $34,516 in excess of the loan. The State has made no payments from the phase two loan. We do not know how the city has paid the $34,516 excess expenditures, if they have, nor can we tell whether the city has expended more of its own funds on this project which they may have not reported to the State. Only an examination of the records of the city would reveal the total expenditures made by the city on this project.

We have been informed that the auditors of the Department of Parks and Recreation plan to audit the records of the city relating to this project sometime early in the calendar year 1968. The Department of Parks and Recreation furnishes fiscal services, such as accounting and auditing, under inter-departmental contract with the newly organized Department of Harbors and Watercrafts.

As previously reported to you, there is a suggestion in the correspondence file that the city's engineers, Moffatt and Nickols, had hoped that any costs in excess of the $750,000 loan amount could be obtained from phase two funds. The State's project engineer and the director of the department both have told the city that this is not possible and they have assured us that the city has to pay the excess expenditures out of its own funds.

We expect to periodically follow up on the expenditures made from the phase two loan and report any further developments to you. No expenditures, however, can be made until after the Harbors and Watercrafts Commission approves a plan for berthing seagoing common carriers. Such plan will be submitted to the commission at its November 20, 1967 meeting. If you believe it advisable, we will have a member of the staff attend the

meeting. We do not know yet where it will be held. The commission is holding its October meeting in Avalon on October 16th.

Sincerely yours,
William H. Merrifield
Auditor General

WHM:bk
cc: Members of the Joint Legislative
Audit Committee

CHAPTER ELEVEN

DEPARTMENT OF GENERAL SERVICES

FACILITIES PLANNING DIVISION REVIEW OF STATE LEASING PRACTICES

In December 1968 the Auditor General issued a report on a review he had conducted of the real estate leasing operations of the Department of General Services.

The review was made to evaluate the effectiveness and efficiency of the administration of the state's leasing of real property. The Auditor General's findings and our recommendations are summarized below.

EXTENT OF STATE LEASING OF OFFICE SPACE

About 40 percent of the estimated 10.7 million square feet of office space occupied by the state (exclusive of office space in the university, colleges, mental hospitals, and other state institutions) is leased.

Leasing of a small portion of the office space occupied by the state is necessary in order to provide flexibility for the short-term expansion and contraction of state activities and to provide office space in areas where only a few employees are located.

The current situation where a large portion of the state's office space is leased has come about because:

(1) Leasing has been used as a means of obtaining long-term financing for state buildings.

(2) Leasing is sometimes more economical than state ownership due to the high cost of building and operating state-owned buildings as compared with the cost of building and operating privately-owned buildings.

COST OF LEASING

When the state leases space from a private owner, the rental it pays reflects both property taxes, which the state would not pay on property it owned, and interest rates higher than those available to the state on its tax-exempt bonds.

Property taxes vary by location but typically are about $2\frac{1}{2}$ percent of market value, while interest rates available to private builders are currently about three percentage points above rates available to the state. Private lessors thus must pay out annually an amount equal to about $5\frac{1}{2}$ percent of the cost of their land and buildings for costs which would not be incurred under state ownership.

Studies by the Department of General Services indicate that the typical annual rentals for moderate size built-to-suit buildings leased for 10 to 15 years to the state, with maintenance and cleaning provided by the state, is about 11.7 percent of the cost of the land and building. For these leases the approximate $5\frac{1}{2}$ percent of land and building cost that lessors must pay out each year for property taxes and higher interest costs is about one-half of the total rental.

Offsetting the property taxes and higher interest rates paid by persons leasing to the state and reflected in the rent paid by the state, are the higher costs of constructing and operating state-owned buildings which are discussed later in this report.

Following are examples of property leased by the state which illustrate the savings that could be obtained through state ownership. In each of the following examples state ownership would clearly have been more economical if state-owned buildings could have been built and maintained at costs similar to those incurred by the lessors. Even after considering the higher cost of state construction and operation, state ownership may have been more economical in the case of all except the first example.

(1) In January 1968 the state signed a lease for a built-to-suit building to house a state service center in south central Los Angeles. The building, which is scheduled for occupancy in April 1969, is leased for ten years with the state having an option to cancel after five years. The land on which the building is located cost $164,700, and the Department of General Services has estimated the cost of the building and site improvements at $871,000, or about $1,035,700 for the land and building. Annual rental for the building is $179,400, of which approximately $50,000 is estimated to repre-

sent cleaning and maintenance costs. The state has the option to purchase the building and land for \$1 million at the end of either the fifth or tenth year of occupancy.

The rental rate, after deducting cleaning and maintenance costs, is sufficient to pay for the building in eight years and eight months, or the building and land both in ten years, including interest at $4\frac{1}{2}$ percent.

(2) In June 1967 the state signed a lease for a service center in east Los Angeles. The original value of the land and buildings was estimated by the Department of General Services to be about \$400,000. The lease provided for remodeling and new construction by the lessor estimated to cost approximately \$1,250,000, for a total investment of about \$1,650,000. Annual rental for the building is \$449,316, of which the lessor estimates \$90,132 represents cleaning and maintenance. The lease is for 15 years and may be cancelled by the state after five and one-half years. The state has the option to purchase the land and buildings after five and one-half years for \$725,000.

The rental rate, after deducting cleaning and maintenance costs, is sufficient to pay for the property in five years and two months, including interest at $4\frac{1}{2}$ percent.

(3) In November 1966 the state signed a lease for a California Highway Patrol building in the Los Angeles area. The lease is for 15 years and may be cancelled by the state after ten years, the annual rental is \$50,040 and the state provides cleaning and maintenance.

The cost of the land and building according to the lessor was \$425,000. Payments of \$50,040 per year would pay for the land and building in ten years and nine months, including interest at $4\frac{1}{2}$ percent.

(4) In December 1966, the state signed a lease for a California Highway Patrol building in northern California. The lease is for 15 years and may be cancelled by the state after ten years. The annual

rental is \$12,552 with the state providing cleaning and maintenance.

The cost of the land and building according to the lessor was \$97,000. Payments of \$12,552 per year would pay for the land and building in nine years and seven months, including interest at 4½ percent.

HIGHER COST OF CONSTRUCTING STATE-OWNED BUILDINGS

A comparison made by the Department of General Services between the construction costs of certain state-owned buildings and the construction costs of similar buildings leased to the state showed that the state-owned buildings cost over twice as much to construct as the leased buildings.

As a result of a requirement by the 1968 Budget Conference Committee of the California Legislature, the Department of General Services is preparing lease and purchase analyses for all proposed California Highway Patrol buildings. In order to make these analyses, the department determined the historical cost of typical state-owned Highway Patrol buildings and the cost of similar leased Highway Patrol buildings built to state specifications.

Information supplied to the department by lessors of built-to-suit buildings for the California Highway Patrol indicated that the buildings typically cost the lessors about \$18 per square foot to construct (adjusted to 1968 prices), while similar Highway Patrol buildings designed by and constructed under the supervision of the state's Office of Architecture and Construction cost about \$43 per square foot to construct, or about 2.4 times as much as the lessors paid for the construction of their buildings.

The 2.4 to 1 ratio of state to private construction of Highway Patrol buildings probably is approximately the same for other moderate size state office buildings. The relationship may not be the same for larger office buildings.

The Office of Architecture and Construction believes that it will be able to reduce the cost of future moderate size office buildings constructed under its supervision to about 30 percent above the cost of privately constructed buildings. Current lease and purchase analyses prepared by the Department of General Services are based on

state buildings costing one-third more than the cost of similar privately constructed buildings rather than the 2.4 times that they have historically cost.

HIGHER COST OF OPERATING STATE-OWNED BUILDINGS

The cost of operating certain state-owned buildings exceeds the cost of operating privately-owned buildings. This condition exists mainly at state buildings located in areas other than Sacramento, San Francisco, and Los Angeles. In some instances, the state operating costs per square foot of usable space is nearly equal to the rental rate of private buildings. Operating costs do not include interest, taxes, and amortization of the cost of the building, while rental rates include these items plus a return on the investment.

The high operating costs of state-owned buildings is attributable to the high cost of cleaning and maintenance. Our separate report on the Buildings and Grounds Division of the Department of General Services includes comments on the state's cleaning and maintenance costs.

The Department of General Services is currently engaged in a program of consolidating state agencies into centralized state offices wherever possible. Consolidation can produce economies through increased flexibility, centralized use of lobbies, duplicating equipment, and receptionists, and through reduction of wasted space. Unless the department makes an intensive effort to reduce the cost of building and operating state-owned buildings, a significant portion of the potential savings available through consolidation may be lost.

RECOMMENDATION

We recommend that the Department of General Services make an intensive effort to reduce the cost of building and operating state-owned buildings.

LEASING BUILDINGS FROM A NONPROFIT CORPORATION

The state has a choice between leasing and constructing buildings. Leasing means paying rents which include property taxes, higher interest rates, and a return on the owner's investment. Constructing state buildings results in paying higher construction and operating costs.

Both high cost state-owned and lower cost built-to-suit leased buildings are built in accordance with state speci-

fications, which are prepared by a different division of the Department of General Services. It appears that the construction costs of state-owned buildings could be lowered. However, the courts have interpreted the state constitution as requiring that all maintenance and cleaning of state buildings be done by civil service employees, even where this results in higher costs. Therefore, the state may not be able to reduce the cost of operating state-owned buildings located away from the main concentrations of state buildings in Sacramento, San Francisco, and Los Angeles, to that paid by private lessors due to the inefficiencies of the smaller scale state operations.

By establishing a state-controlled nonprofit corporation for the purpose of leasing property to the state, it may be possible for the state to pay lower interest rates and avoid property taxes, and still be assured of obtaining the advantages of lower operating and construction costs currently available only to persons leasing to the state. A nonprofit corporation could obtain bids and construct the required buildings, contract for the maintenance and cleaning of the buildings, and lease the buildings to the state with title going to the state at the end of the lease term. Sacramento State College's College Town housing project, which is under development by a nonprofit corporation, is an example of what the state may be able to do on a larger scale.

A nonprofit corporation would be useful even if state construction and building operating costs should be reduced in the future, since it could contract for architectural services and maintenance from the state when this resulted in lower costs and from private contractors when it did not, thus providing a check on the cost of state services.

Funds for purchasing the required buildings could be made available through loans from the state or from revenue bonds secured by the property acquired and the revenue from the lease with the state. Financing through loans from the state would be preferable because of the lower interest cost of the state's general obligation bonds. However, even revenue bonds, because of their tax-exempt status, should have a lower interest rate than is available to private lessors.

Assembly Bill 1474, signed by the Governor August 21, 1968, authorizes the establishment of nonprofit corporations for the purpose of leasing property to the state and to California cities and counties and provides for the exemption of such a corporation from property taxes. A state-controlled nonprofit corporation could be established under the provisions of this bill through additional legislation.

If such a nonprofit corporation is established, it would be desirable that at least the following controls be included in the enabling legislation:

(1) A provision requiring annual state approval for the issuance of any revenue bonds by the corporation.

(2) A provision permitting buildings to be purchased only from loans from the state, the proceeds of bonds sales, or with specific legislative approval. No buildings could be constructed from the excess of rental income over expenses without specific authorizing legislation.

(3) A requirement that all buildings be obtained only through competitive bidding following procedures specified in the statute.

(4) A provision for the inspection of the corporation's records by authorized state personnel in the same manner as in any other state agency.

RECOMMENDATION

We recommend that consideration be given by the Legislature to the establishment of a state-controlled nonprofit corporation for the purpose of leasing buildings to the state.

RELOCATABLE BUILDINGS

A substantial number of relocatable buildings are used by various state agencies for temporary office space and by the state colleges for temporary classrooms.

Rates bid by manufacturers for rental of relocatable buildings usually are sufficient to amortize the cost of the building over the term of the lease. The Department of General Services currently requires bidders to state an

option price in the event that the state decides to purchase the buildings at the end of the lease term. These option prices have usually been for nominal amounts such as one dollar. It may not be possible for the state to exercise these options without authorizing legislation and an appropriation.

When a manufacturer's bid includes an option to purchase at a nominal price at the end of the lease term, he is able to treat the lease as a sale for income tax purposes and obtains a tax exemption for the interest portion of the lease payments. The manufacturer must, however, pay property taxes on the building, which would not have to be paid if the building were owned by the state.

RECOMMENDATION

We recommend that:

(1) The Department of General Services request legislation authorizing the purchase of relocatable buildings whenever the optional purchase price is less than the cost of continued renting.

(2) The department make outright purchases of certain relocatable buildings when it is financially feasible.

MANAGEMENT INFORMATION

The Department of General Services currently does not have available a reasonably accurate inventory of state-owned and leased space. The department has assigned one employee full time to reviewing and correcting data in the department's space inventory, and estimates that this work will be completed within about one year.

In addition, a new data processing program has been developed which, when fully operational, should enable the department to keep accurate space records and answer questions such as the following:

(1) How much state-owned space or how much leased space does the state have in a given area?

(2) Which leases will expire or become cancellable during the next year?

(3) How prompt is the department in processing requests for space?

In some cases answers to questions of this type can currently be obtained only through costly and time-consuming manual analyses of data.

Although the steps the department is taking to improve its information system will, when completed, represent a considerable step forward, the system will still fall short of fully meeting the information needs of the department, other executive branch agencies, and the Legislature.

For example, without additional programming or extensive manual analysis, the department's new information system will not be able to answer questions such as:

(1) How much does the state spend for leased space in total and per square foot on a statewide basis or in a specific area, or for a specific agency?

(2) What is the average number of square feet per person in a specific building, area, or agency?

(3) How many leases have rental rates which exceed a given amount?

(4) Which leases are for built-to-suit buildings for the state, and what are their rental rates?

(5) How much vacant or unneeded space is there statewide, or in a given area or building, or assigned to a particular agency?

Knowledge of such things as the extent and cost of state leasing, the amount, type, and location of vacant or unneeded space, and the number of square feet per person in various buildings and various agencies is essential for an adequate evaluation of the state's capital outlay needs by the administration and the Legislature.

RECOMMENDATION

We recommend that the department improve the space management information system and reports to more fully meet the needs of both the administration and the Legislature.

DELAYS IN COMPLETION OF LEASED BUILDINGS

State leases for built-to-suit buildings and for existing buildings requiring alterations before state occupancy usually contain a provision allowing the state to terminate the lease if the building is not ready by a specified occupancy date. There is normally no other remedy mentioned in the lease should the lessor not produce the building on time. The state normally is not in a position to exercise its right to cancel the lease because the time required to advertise for bids, and the construction or alteration time needed by a new bidder, would be greater than the delay caused by allowing the present lessor to complete his work.

RECOMMENDATION

We recommend that the state's standard lease form include a provision for the payment of a penalty by the lessor if the leased property is not ready for occupancy as specified, except where the delay is for causes beyond the control of the lessor.

DEPARTMENT OF GENERAL SERVICES

REVIEW OF OPERATIONS OF THE BUILDINGS AND GROUNDS DIVISION

In conjunction with the review of the state leasing practices, the Auditor General also reviewed the operations of the Buildings and Grounds Division of the Department of General Services.

The purpose of this review was to evaluate the effectiveness and efficiency of the Division's administration of the building maintenance and operation programs for which it is responsible. A summary of the Auditor General's findings and our recommendations follow.

The Buildings and Grounds Division of the Department of General Services operates under the authority of various sections of the Government Code.

The State Legislature has declared that ". . . a centralization of business functions and services of state government is necessary to take advantage of specialized techniques and skills, provide uniform management practices, and to insure a continuous high level of efficiency and economy".

The Buildings and Grounds Division maintains, operates, and furnishes janitorial services to state-owned buildings and grounds under the jurisdiction of the Department of General Services as well as some major state-owned buildings and grounds under the jurisdiction of other departments. These buildings and grounds are located mainly in Sacramento, San Bernardino, San Francisco, Los Angeles, Oakland, Fresno, San Diego, and Stockton.

During the fiscal year 1967–68 the division maintained 9,727,000 square feet of buildings and 6,488,000 square feet of grounds. The division recorded building maintenance costs of $9,358,000, of which $8,905,000 was reimbursed through charges to other agencies. The remaining $453,000 was financed out of the Department of General Services General Fund appropriation.

PRIVATE CONTRACTING OF JANITORIAL MAINTENANCE

The cost of state-provided janitorial maintenance is more than the cost would be if the services were provided by private contractors. To promote efficiency and economy, the Department of General Services should be allowed to contract for janitor services. This could be accomplished by having the Buildings and Grounds Division compete with private contractors for the same work, with the lowest bidder being allowed to do the work. This procedure would require the amendment of Article XXIV of the State Constitution.

Article XXIV is the State Civil Service Act. The Civil Service Act has been interpreted as prohibiting the contracting out of services capable of being performed by state employees. The legal test whether services may be performed under independent contract or state civil service does not depend upon economy or efficiency.

In reviewing the operations, the following illustration of possible savings by contracting came to our attention:

(1) The Business and Professions Building in Sacramento is provided janitorial services by the Buildings and Grounds Division. During the fiscal year 1967–68 janitorial maintenance cost $178,771, or 58 cents per square foot. A private contractor submitted a bid which would have resulted in an annual cost of $142,260, or 46.3 cents per square foot.

This would result in a saving of $36,491, or 20 percent.

(2) The cost of maintenance of two state-occupied buildings of approximately the same size were compared. One was leased by the state and maintained by a private contractor. The other was maintained by the Buildings and Grounds Division. The private contractor's annual fee was 52 cents per square foot. The division's cost was 85.5 cents per square foot. A saving of about $15,000 per year would result from the application of the 52 cent rate instead of the 85.5 cent rate to the state-maintained building.

(3) An estimate of 42.8 cents per square foot was submitted by a private contractor on the Resources Building in Sacramento. Services were provided by the Buildings and Grounds Division at a cost of 66 cents per square foot. A saving of $152,000 would result from the application of the 42.8 cent rate instead of the 66 cent rate to the Resources Building.

(4) It has been the practice of the Facilities Planning Division to require lessors to provide maintenance service on property leased to the state, as the cost of the state providing the maintenance is much higher. In Los Angeles the state is leasing a building that is maintained by a private contractor for 37.3 cents per square foot. The Buildings and Grounds Division's maintenance of buildings is running between 60 cents and 86 cents a square foot in the Los Angeles area. Private contracting would save at least 38 percent of the cost of maintaining state buildings in Los Angeles.

(5) In smaller cities the saving would be even more substantial, as the Buildings and Grounds Division provides full-time staffing, whereas part-time help would suffice. In Redding, contract janitorial services and supplies are costing the lessor about $10,380 per year, or 46 cents per square foot. If the Buildings and Grounds Division did the work, the same services and supplies are estimated to cost $35,500 per year, or $1.58 per square foot.

Services provided by the state would result in an increase of $25,120 in the cost to the state.

RECOMMENDATION

We recommend that a study be made to determine the feasibility of proposing an amendment to Article XXIV of the State Constitution to permit private industry to perform janitorial maintenance for state-owned buildings.

BUILDING MAINTENANCE AND OPERATING COST RECORDS

The cost accounting system needs to be revised. Maintenance costs are excluded from the building cost records, and some expenditures are made directly by the building tenants; therefore, total costs are not readily available for all buildings.

The Buildings and Grounds Division chargs expenditures either to the buildings or to non-building work orders. A review of a representative sample of these work orders discloses that they are mainly for building alterations and repairs. In commercial accounting these expenditures would be charged as building operating costs. It has been the practice of the division to compare the costs of maintenance of state building with similar private industry costs, using data submitted to the National Association of Building Owners and Managers. The most recent cost comparison was made for the fiscal year 1966–67 for the San Francisco buildings. The state experienced favorable cost comparisons in the alterations and repair accounts. To obtain a fair comparison, a detailed analysis of the non-building work orders would have to be made to determine whether the items so classified are actually building operating costs. The non-building work orders for the fiscal year 1967–68 amounted to $509,000.

Out of their own appropriations, some agencies are purchasing supplies, contracting for maintenance services, and employing maintenance personnel. This results in expenditures for maintenance and operations being excluded from the Buildings and Grounds Division cost records. To a certain extent, this has also caused a decentralization of responsibility for building maintenance and operation.

Following are examples of instances where costs are excluded from the accounting records:

(1) The Department of Professional and Vocational Standards provides all maintenance supplies and two matrons, in addition to maintenance services provided by the Buildings and Grounds Division, for the Business and Professions Building in Sacramento. It is estimated that $33,000 per year should be added to the maintenance cost of that building when making reports or comparing costs with other buildings.

(2) The State Personnel Board contracted for alterations for its Sacramento building with a private contractor. It is estimated that these expenditures would add $15,000 to the maintenance costs for the fiscal year 1967–68.

(3) The Division of Highways in the Public Works Building in Sacramento has a building maintenance man, electrician, painter, and mechanic on its payroll, and also purchases all maintenance supplies. It is estimated that these expenditures would add $31,800 annually to the cost of operating the Public Works Building.

RECOMMENDATION

We recommend that:

(1) The cost of maintenance be included as building costs rather than charged to non-building work orders.

(2) All building maintenance and operations be administered by the Buildings and Grounds Division and included in its cost records and reports.

ALLOCATION OF ADMINISTRATIVE COSTS

Effective July 1, 1968 the Buildings and Grounds Division has developed procedures whereby the administrative costs will be allocated to the buildings by use of a statewide overhead rate. A statewide overhead rate does not take into consideration the variations in area administrative costs, and therefore costs actually incurred for each city will be misstated.

Administrative overhead has been allocated to the buildings by use of a predetermined rate. This rate includes estimates for general administrative pro rata charges and for department, division, and area administrative costs. During the fiscal year 1967–68 a separate overhead rate was used for each city. This was felt to be necessary, as the administrative cost for the cities varied from 15 percent to 47.5 percent of direct labor.

As the overhead rates are based on estimated administrative costs, it would be a normal procedure to periodically adjust the cost records to reflect the actual cost. No adjustment was made to reflect the actual administrative overhead for the fiscal year 1967–68. A more precise cost accounting would provide management with better information with respect to the cost of building maintenance in each city.

In addition to the statewide overhead rate, the division has adopted a statewide billing rate. The division believed that a statewide billing rate was necessary to foster consolidation of all janitorial services under the jurisdiction of the division. A problem arises in that offices in rural areas are more expensive to maintain than offices in metropolitan areas. This results in offices in rural areas paying less than the actual costs of services. Certain agencies located in rural areas, such as some of the offices of the Division of Highways, the Department of California Highway Patrol, and the Department of Employment, are special fund agencies; therefore, it is important that actual costs be used in making comparisons to determine whether the General Fund is being reimbursed by the special fund agencies for the costs of services received.

RECOMMENDATION

We recommend that procedures be adopted so that actual administrative costs incurred for the benefit of the buildings located in each city be allocated to the buildings in that city.

FUNDING OF OPERATIONS

The operations of the Buildings and Grounds Division are funded to the extent of about 90 percent out of service charges to those agencies which have appropriations

in their budgets. The remainder is funded by a direct appropriation to the Department of General Services for tenants such as the Legislature, which is not charged for services.

In our report on examination for the year ended June 30, 1964 we recommended that memorandum cost records be kept for tenants not charged for services so that a comparison could be made of the actual costs incurred with charges to the tenants. This recommendation has not been implemented.

Since a comparison of costs and charges has not been made, it is difficult to determine whether the charges are adequate to cover all costs incurred for the benefit of the user agencies, or whether the direct appropriation is sufficient to cover the cost of maintenance for tenants not being charged.

We recommend that the Buildings and Grounds Division be funded entirely through service charges to all agencies, which should be accounted for in the Service Revolving Fund.

CHAPTER TWELVE

THE JOINT LEGISLATIVE AUDIT COMMITTEE *and* THE OFFICE OF THE AUDITOR GENERAL

An independent postaudit service for the executive and legislative branches of California state government was established by the 1955 session of the State Legislature.

Senate Bill No. 1540, enacted as Chapter 1699, Statutes of 1955, added Chapter 4 to Part 2, Division 2, Title 2, of the California Government Code. The chapter is covered by Sections 10500–10528 of the California Government Code, and is reproduced in Appendix B of this report.

In 1955, the Legislature recognized the need for two types of auditing in state government—an internal audit and an independent postaudit.

The internal audit is conducted within the executive branch of state government, and is designed to meet the need for periodic and special audits of revenues and expenditures. In addition, this type of audit monitors accounting and reporting systems within state agencies. The internal audit is recognized as a means of insuring the proper and lawful expenditure of state funds, and the Legislature expressed the desire that this function be coordinated in the executive branch to promote better economy and efficiency.

In contrast, the independent postaudit has been placed outside the executive branch under the policy direction and control of a legislative committee. It had become apparent by 1955 that state government needed the same useful and independent annual appraisal large private corporations receive from national accounting firms. The postaudit program created at this time was designed to meet the need for such an independent review.

JOINT LEGISLATIVE AUDIT COMMITTEE

The Joint Legislative Audit Committee consists of three members of the State Senate and three members of the State Assembly. Members of the committee are selected under provisions of the Joint Rules of the Senate and Assembly. The Joint Rules provide that Senate members shall be appointed by the Senate Committee on Rules, and Assembly members shall be appointed by the Speaker of the Assembly.

Chapter 1699, Statutes of 1955, specifies that the Joint Legislative Audit Committee shall have continuing existence and that it may meet, act, and conduct business at any place within the state. This applies during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

The duties and responsibilities of the committee are to appoint an Auditor General and a Deputy Auditor General, to determine the policies of the Office of the Auditor General, ascertain facts, review reports and take action thereon. In addition, the committee is required to make recommendations to the Legislature concerning the state audit, revenues and expenditures of the state, its departments, subdivisions, and agencies.

The committee is authorized to make rules governing its own proceedings. It may also establish subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold.

The committee has the powers and authority granted to investigating committees by Joint Rule 36 of the Senate and Assembly. This rule provides that a committee may fix rules governing its procedure, may employ such assistants as may be necessary, and shall be empowered to subpoena witnesses. Under this rule every department and agency of the state government, and every political subdivision of or in the state, is required to furnish a committee such information or records as the committee deems necessary for the accomplishment of its purpose. The rules adopted by the Joint Legislative Audit Committee to govern its procedure are contained in Appendix E of this report.

THE OFFICE OF THE AUDITOR GENERAL

LEGISLATIVE PURPOSE

The legislation in 1955 which established the Joint Legislative Audit Committee also created the Legislative Audit Bureau which was placed under the direction of the Auditor General. The policies for the operation of the Office of the Auditor General are determined by the Audit Committee.

The Legislature recognized the need for an independent audit for the use of both the executive and legislative branches of the state government in establishing a sound fiscal and administrative policy for the government of the state. The creation of the Legislative Audit Bureau under the direction of the Auditor General gave the Legislature, the state government's board of directors, independent auditing comparable with that performed by independent firms of certified public accountants for the boards of directors of large private corporations. This audit function was sponsored by the accounting profession and is considered by the profession to be an important and effective function of the state government.

The text of Sections 10500–10528 of the California Government Code which pertain to the Joint Legislative Audit Committee and the Auditor General are reproduced in Appendix B of this report.

DUTIES

The basic duties of the Auditor General are twofold. He is required to examine and report annually upon the financial statements prepared by the executive branch in order to inform the Legislature as to the adequacy of the financial data presented in compliance with generally accepted accounting principles. In addition, he is required to make such special audits and investigations as requested by the Legislature or any committee of the Legislature.

The examinations made each year of the accounts and records, including accounting procedures and internal auditing performance, are those which the Joint Legislative Audit Committee determines and specifically designates as necessary to the proper reporting to the Legislature in accordance with the purposes set forth in the statutes.

To carry out his duties, the Auditor General is authorized to employ such professional, clerical, and other assistants as he deems necessary for the effective conduct of his work. He is granted access to and given authority to examine any records of any agency of the state whether created by the Constitution or otherwise.

The Auditor General and the Deputy Auditor General are certified public accountants. They had many years of experience with major firms of certified public accountants before assuming their duties with the state government.

STAFF

The staff authorization for the Office of the Auditor General at December 31, 1968 is composed as follows:

Auditor General and Deputy Auditor General	2
Audit staff	36
Office staff	3
Total	41

The audit staff positions as of December 31, 1968 were as follows:

Class	Total	CPA's
Audit managers	3	3
Audit supervisors	3	3
Senior accountants	8	5
Semisenior accountants	14	6
Junior accountants	8	--
Total	36	17

The audit staff has been recruited on an exempt (non-civil-service) basis, as directed by the Joint Legislative Audit Committee and as permitted by the Joint Rules of the Senate and the Assembly. The same high standards which were established by agreement with the Committee

have been maintained through the years in the recruitment of audit staff members. These standards are:

(1) A bachelor's degree or higher with a major in accounting from a recognized college or university;
(2) Possession of a certified public accountant's certificate, at least at the higher staff levels;
(3) The ability to work with others on a professional plane;
(4) A high degree of personal integrity; and
(5) An unusual amount of curiosity, industry, perseverance, and resourcefulness.

In addition to these standards, it was required that the accountants originally recruited at the manager, senior accountant, and semisenior accountant levels have progressive, diversified experience with a firm of independent certified public accountants of some substance. A condition of employment on the audit staff is that a member will obtain a certificate as a certified public accountant within a reasonable time after joining the staff. This condition assures a continuation of the education of the staff member, which benefits the legislative audit program as well as the staff member.

Experience on the audit staff has been accepted by the State Board of Accountancy as qualifying experience for issuance of the certified public accountant's certificate to candidates who have passed the CPA examination, which is given twice each year on a nationwide basis.

Many of the members of the audit staff hold memberships in professional accounting organizations and are active in programs designed to keep the member current on new techniques developing in the profession.

AUDIT POLICY

Prior to the establishment of the Joint Legislative Audit Committee and the Office of the Auditor General a study was made in 1954 of auditing and accounting in the state government by a recognized national firm of certified public accountants. That firm suggested certain guidelines for the operation of the Auditor General's office which were adopted by the Committee. The guide-

lines which were adopted as policy are set forth in the following quotation from the consultant's report:

> "As to the duties and functions of the office: the auditor should have the primary duty, and necessary authority, to examine and report annually upon the financial statements of the State; such statements should be required to be furnished to him by the Director of Finance, the State Controller and State Treasurer or other principal accounting officials. This should not require the annual examination of the statements and accounts of each department or agency; the scope of the work and the selection of the agencies should be left to the discretion of the auditor and his counseling committee. He should make such other examinations or investigations as he believes desirable and those he is directed to perform by the committee only, or the Legislature acting through it. * * *
>
> "The auditor's authority, beyond that of examining, should be confined to reporting objectively and independently. The reports should include such comments, recommendations and suggestions as the auditor wishes to make but he should have no power to enforce them nor should he otherwise influence or direct executive or legislative actions. * * *
>
> "The objectives of these examinations are given in the definition of the term 'auditing' which was set forth earlier in this section; restated briefly they are to ascertain:
>
> > "That the executive branch is carrying out only the activities and programs authorized by the Legislature and is doing so effectively and efficiently.
> >
> > "That expenditures are made and revenues are collected in accordance with the laws and regulations.
> >
> > "That the assets of the State are safeguarded and utilized properly.
> >
> > "That the reports and financial statements prepared by the executive branch disclose all material information necessary to a proper evaluation of the State's activities."

Each year, the Auditor General submits a tentative work program to the Committee for review. This program is adopted by the Committee after making changes sug-

gested by members of the Committee. The Committee receives monthly activity reports from the Auditor General throughout the year. Necessary changes are made in the program during the course of the year to give emphasis to important matters under discussion in the Legislature. Approximately 10 percent of the budgeted time is reserved in each annual program to fulfill special requests for services received by the Committee from the Legislature or any committee of the Legislature.

The work program is generally designed to cover each fund and each agency at least once in every four years. Agencies identified as having major problems are examined at more frequent intervals, annually if deemed necessary. The General Fund accounts and the major sources of revenue are examined annually. One exception to the audit of state funds is the Veterans Farm and Home Building Fund, which is examined each year by an independent firm of certified public accountants. The accounts of the University of California are also examined yearly by an independent firm of certified public accountants. Reports on these examinations are provided to the Auditor General for his review and whatever tests the Committee considers desirable.

During 1967 the statutes were amended to provide that the Auditor General audit the State Compensation Insurance Fund. In addition, state statutes provide that the Auditor General make examinations of the City of Long Beach Tideland revenues and expenditures and analyze all facts pertaining to new concession contracts in state parks.

The programs authorized by the Committee for the work of the Auditor General place increasing emphasis on performance audits, the purpose of which is to provide the Legislature with an evaluation of the manner in which the agencies of the executive branch of the state government have discharged their responsibilities to faithfully, efficiently, and effectively administer programs of the state. It is recognized that this will be a difficult task until the executive branch has fully adopted a program type budget, has carefully identified its program goals, has established performance standards by which it expects to measure its success in attaining those goals, and has established an accounting and reporting

system which will provide information to management promptly in the program format.

With the approval of the Audit Committee, the Auditor General is developing a program for the conduct of computer operations audits of the major computer systems in use in the state government. The principal objectives of this program are to evaluate the controls maintained over data processed in the computer centers and to develop tailored audit programs and plans for the use of computers in future audits of agencies. This program will give consideration to the development of new audit techniques which would be applicable to the computer. The techniques to be considered would include the use of test decks, real time systems tests, ongoing audit programs, statistical sampling applications, and other techniques.

It is expected that programs can be developed by which performance data can be matched through computer programs with financial data to produce reports which will be useful to management in the evaluation of its effectiveness in accomplishing program goals. The computer programs that can be developed would be available to internal audit groups in the performance of their tasks as well as to the Auditor General in fulfilling his responsibility to report to the Legislature.

In making his examinations, the Auditor General is authorized by statute to examine the internal audit performance in addition to making an examination of accounts and records. This authorization recognizes that the internal audit should be an integral part of the management control system. The major internal audit force in state government is located in the Department of Finance rather than being attached to the management of the operating agencies that provide the services to the taxpayer. The major internal audit effort does not respond to agency management on a current day-to-day basis as decisions have to be made. The Auditor General recommended in the past that a major portion of the finance internal audit staff be shifted to state agencies. This has not been done.

This recommendation included a provision for a high level audit group to be retained in the Department of Finance to provide a continuous review of agency and departmental internal audit effort. This placement of

internal auditors should make this service useful to a broader span of state management than is now possible. Price Waterhouse & Co. in their 1954 report on a study of accounting and auditing for the State of California recommended that such a transfer of internal auditors be made to agencies' own staffs. The Auditor General reports that the internal audit provided by the Department of Finance is of limited use to him in fulfilling his responsibility to report to the Legislature.

It is possible that another study of internal auditing at all levels in state government should be made to determine the most effective and efficient way of providing this service to all levels of the state government.

REPORTS RECEIVED AND REVIEWED BY THE COMMITTEE

There is listed in Appendix A the reports issued by the Auditor General during the four-year period from January 1, 1965 through December 31, 1968. These reports are arranged for ready reference by the organizational divisions of state government. Included in this list are 125 reports which were received by the Committee during the biennium covered by this report. These reports are classified as follows:

Reports on examinations of the financial statements of state funds	50
Reports on examinations of the accounts of state agencies	16
Reports on special investigations	49
Reports on performance audits	10
Total	125

The Audit Committee, as an investigating committee, has followed the practice of transmitting copies of the Auditor General's reports to the appropriate committees of the Senate and the Assembly for such action on the Auditor General's findings as they may deem appropriate. Copies of the reports are also transmitted to the chief consultant of the Senate and the Office of Research of the Assembly and to the Legislative Analyst.

Copies of reports are transmitted by the Committee to the departments and agencies examined with requests for responses to the Auditor General's findings and recommendations. The reports issued during the two-year period ended December 31, 1968 contained 380 recommendations. Responses received to these reports show that approximately 89 percent of the recommendations made were accepted by the agencies audited.

Copies of all reports are issued to the State Controller, the Director of Finance, and the Systems Analysis section of the Department of General Services.

REPORTS ON EXAMINATIONS OF FINANCIAL STATEMENTS OF STATE FUNDS

Section 10528 of the Government Code states that the "Auditor General shall examine and report annually upon the financial statements prepared by the executive branch of the State . . ." Fifty such reports were issued during the two years ended December 31, 1968. In these reports the Auditor General has expressed his opinion as to whether the financial statements present fairly the financial position and operations of the funds examined in accordance with "generally accepted accounting principals" applied on a consistent basis. This opinion of a professional auditor is expressed on the basis of an examination which is stated as having been made in accordance with "generally accepted auditing standards". The auditing standards and the accounting principles referred to are defined and explained in Appendices C and D, respectively.

The term "examination" which is used to describe the auditor's work means a critical analysis of the underlying internal controls and accounting records of an operating agency, of sufficient scope by qualified persons to warrant the expression of an opinion as to the propriety of the financial statements prepared from those records. To examine and report on the financial statements of the funds of the State of California, the Auditor General makes this critical analysis of the accounting data of the agencies where the financial transactions originate as well as the data recorded in the central con-

trol accounts maintained by the State Controller, and he reviews the controls established over activities by the agency audited as well as the controls exercised by the central control agencies of the state.

The Auditor General, in the performance of these examinations, determines whether the accounting records of the state agencies are maintained in accordance with the generally accepted accounting principles as set forth in Appendix D.

In the performance of these examinations, the staff of the Office of the Auditor General fully meets the tests of the generally accepted auditing standards set forth in Appendix C. The Auditor General has an adequately trained and supervised staff that maintains a proper independence in mental attitude toward its tasks and uses due professional care in the handling of its assignments.

REPORTS ON EXAMINATIONS OF THE ACCOUNTS OF STATE AGENCIES

During 1967 and 1966, 16 reports were issued by the Auditor General on examinations of the accounts of state agencies. Most of these examinations were made in agencies financed by the General Fund. These examinations represent an extension of the examination of the General Fund accounts made in the office of the State Controller and are intended to test the controls over revenues and expenditures in the agencies examined.

REPORTS ON SPECIAL INVESTIGATIONS

Section 10528 of the Government Code requires the Auditor General to make special audits and investigations requested by the Legislature or any committee of the Legislature as well as the regular examinations of the financial statements of state agencies. Under this provision of the statutes, 49 reports were issued during the two years ended December 31, 1968 on special investigations. These reports were based on 32 requests by the Legislature or joint committees of the Legislature, 14 requests by Assembly committees and three requests by Senate committees.

TIME REPORTED ON ASSIGNMENTS

The hours reported on assignments by the staff of the Auditor General for the two years ended December 31, 1968, are classified below by function and type of assignment.

Function	Total	General Fund Audits	Special Fund Audits	Performance Audits	Special Audits, Investi- gations, etc.
Legislative—includes special work for committees	23,563	--	9,105	2,330	12,128
Judicial	240	--	240	--	--
General Services	3,256	--	135	3,121	--
Office of Management Services	20	--	--	--	20
State Fair and Exposition	1,398	--	1,398	--	--
Personnel Board	950	185	--	765	--
Corrections	368	367	1	--	--
Education	4,113	1,736	1,764	--	613
Fiscal Affairs:					
State Controller	14,819	13,332	1,126	--	361
Equalization	6,848	4,538	--	2,310	--
Finance	46	46	--	--	--
Franchise Tax Board	1,326	582	--	744	--
Higher Education	3,218	253	--	2,965	--
Health and Welfare:					
Employment	4,499	--	4,499	--	--
Health Care Services	5,428	--	3,538	1,890	--
Mental Hygiene	6,310	2,767	--	3,543	--
Public Health	236	146	90	--	--

Corrections	368	367	1	--	--
Education	4,113	1,736	1,764	--	613
Fiscal Affairs:					
State Controller	14,819	13,332	1,126	--	361
Equalization	6,848	4,538	--	2,310	--
Finance	46	46	--	--	--
Franchise Tax Board	1,326	582	--	744	--
Higher Education	3,218	253	--	2,965	--
Health and Welfare:					
Employment	4,499	--	4,499	--	--
Health Care Services	5,428	--	3,538	1,890	--
Mental Hygiene	6,310	2,767	--	3,543	--
Public Health	236	146	90	--	--
Social Welfare	209	140	69	--	--
Industrial Relations	27	27	--	--	--
State Compensation Insurance Fund	4,358	--	4,358	--	--
Justice	11	11	--	--	--
Regulation and Licensing	848	87	761	--	--
Resources:					
Conservation	4	4	--	--	--
Fish and Game	1,152	--	1,152	--	--
Parks and Recreation	3,276	1,500	1,776	--	--
Water Resources	4,623	455	2,018	2,150	--
Transportation:					
Aeronautics	56	--	56	--	--
Highway Patrol	2,639	--	--	2,639	--
Motor Vehicles	173	--	173	--	--
Public Works	12,288	--	9,000	2,456	832
Veterans Affairs	298	298	--	--	--
Total	106,600	26,474	41,259	24,913	13,954

REPORTS ON PERFORMANCE AUDITS

Early in 1968 the Committee approved a work program for the Auditor General which included assignments for performance auditing work in several state agencies. Ten reports were issued on these assignments and many more assignments were in progress at the end of 1968. The assignments on which reports were received in 1968 are as follows:

Department of General Services:
- Review of State Leasing Operations
- Review of State Building Maintenance and Operations Programs

Department of Mental Hygiene:
- Review of Programs and Operations at Mendocino State Hospital
- Review of Programs and Operations at Patton State Hospital

Department of Parks and Recreation—Review of Development and Operations of Columbia State Historic Park

Department of Water Resources—Review of Administration of Davis-Grunsky Local Projects Assistance Program

Business and Transportation Agency:
- Review of Funds used to Account for Highway Users Taxes (2 Reports)
- Report on Survey of Operations of California Highway Patrol
- Review of Excess Lands Held by the Division of Highways

EXPENDITURES

Funds for the operation of the Committee and the Office of the Auditor General are allotted in equal amounts from the contingent funds of the Assembly and the Senate by concurrent resolutions of the Legislature. A statement of expenditures and a statement of the

IITTEE

a work program
assignments for
te agencies. Ten
and many more
d of 1968. The
ved in 1968 are

nce and Opera-

s at Mendocino

at Patton State

-Review of De-
mbia State His-

ew of Adminis-
Projects Assist-

t for Highway

California High-

the Division of

mittee and the
lotted in equal
e Assembly and
the Legislature.
atement of the

changes in the Committee's allotment account for the two years ended December 31, 1968, are shown below:

STATEMENT OF EXPENDITURES TWO YEARS ENDED DECEMBER 31, 1968

	Year Ended December 31	
	1967	1968
Salaries	$409,521	$445,447
Employee benefits	33,798	39,461
Travel expense	32,600	33,445
Committee expenses	23,352	22,126
Consultant's fees	--	14,000
Supplies, services, etc.	5,376	7,746
Equipment	1,586	724
Total	$506,233	$562,949

STATEMENT OF CHANGES IN ALLOTMENT ACOUNT TWO YEARS ENDED DECEMBER 31, 1968

	Year Ended December 31	
	1967	1968
Allotment available at beginning of year	$306,262	$377,539
Allotments from Assembly and Senate contingent funds:		
ACR 82, July 19, 1967	470,000	--
ACR 72, September 23, 1968	--	500,000
Reimbursements:		
Long Beach Tideland revenue and expenditure audits	15,603	33,583
State Compensation Insurance Fund audits	11,575	21,967
Work for Joint Committee on Higher Education at the University of California	50,000	--
Sundry	332	107
	883,772	933,196
Expenditures	506,233	562,949
Allotment available at end of year	$377,539	$370,247

REPORT
GEN

LEGISLATIVE

Analysis special
Unified Schoo

Providing supp
Retirement S
from the Gen

1964 State Parl

Examination of
30, 1964 (Ma

Progress report
accounting sy
1965), 2 pp.,

Review of pla
(February 24

1965 State Parl

Examination o
1965 (March

Examination of
30, 1965 (Ma

Review feasibil
2 pp.

Review availab
3 pp.

Review of tax

Review of stud
public schoo

Technical audi
1967), 2 pp.

1966 State Pa

Projection of
—HR 70 an

Effect of Gove

Examination o
June 30, 19

Program for
versity of C
attachment

REPORTS ISSUED BY THE OFFICE OF THE AUDITOR GENERAL DURING THE FOUR YEARS ENDED DECEMBER 31, 1968

LEGISLATIVE

Analysis special education reimbursement records in the Los Angeles Unified School District (January 5, 1965), 12 pp., attachments 2

Providing support (in the 1965 Budget Bill) of the Legislators' Retirement System and the financing of an actuarial evaluation from the General Fund (February 19, 1965), 2 pp.

1964 State Park Concession Contracts (March 31, 1965), 2 pp.

Examination of Long Beach Tideland Trust Funds, Year Ended June 30, 1964 (May 17, 1965), 14 pp., 9 statements

Progress report on financial statements to be produced by the new accounting system of the Assembly Committee on Rules (July 12, 1965), 2 pp., 6 statements

Review of plan to accrue state revenues starting June 30, 1967 (February 24, 1966), 4 pp.

1965 State Park Concession Contracts (March 4, 1966), 2 pp.

Examination of Legislators' Retirement Fund, Year Ended June 30, 1965 (March 16, 1966), 7 pp., 2 statements

Examination of Long Beach Tideland Trust Funds, Year Ended June 30, 1965 (March 30, 1966), 12 pp., 12 statements

Review feasibility of accruing state income taxes (April 26, 1966), 2 pp.

Review availability of funds for short-term borrowing (May 4, 1966), 3 pp.

Review of tax revenue auditing (December 2, 1966), 4 pp.

Review of study of the financing of special education programs in the public schools (December 22, 1966), 12 pp., 2 statements

Technical audit exceptions on Long Beach Tidelands (January 20, 1967), 2 pp.

1966 State Park Concession Contracts (February 6, 1967), 1 p.

Projection of revenues and expenditures for the 1967–68 fiscal year —HR 70 and SR 65 (March 1, 1967), 33 pp.

Effect of Governor's hiring freeze order (March 27, 1967), 5 pp.

Examination of Long Beach Tideland Oil Revenue Fund, Year Ended June 30, 1966 (May 9, 1967), 17 pp., 8 statements

Program for study of financial structure and practices of the University of California—ACR 22, 1967 Session (May 15, 1967), 3 pp., attachment 68 pp.

Review of appropriations for Southern California Rapid Transit District (May 17, 1967), 14 pp.

Supplement to May 17, 1967 report on appropriations for Southern California Rapid Transit District (June 8, 1967), 9 pp.

Progress report on study of financial structure and practices of the University of California (July 12, 1967), 7 pp.

Purchase of La Jolla property by Regents of University of California (July 14, 1967), 2 pp., attachment 10 pp.

Progress report on study of financial structure and practices of the University of California (August 2, 1967), 2 pp.

Examination of Assembly Contingent Fund, Year Ended June 30, 1965 (August 8, 1967 as of March 23, 1966), 3 pp., 2 statements

Special Revenue Funds—Assembly Committee on Government Organization (November 2, 1967), 13 pp., attachment 10 pp.

Examination of University of California, pursuant to ACR 22, 1967 Session (December 8, 1967), 85 pp.

Acquisition of certain property in La Jolla by the Regents of the University of California (January 11, 1968), 18 pp., attachment 7 pp.

Review of cost of Assembly legislative news letters, two month period ended December 31, 1967 (January 24, 1968), 5 pp.

1967–68 Long Beach Tideland revenue estimates (February 7, 1968), 2 pp.

Examination of Assembly Contingent Fund, Years Ended June 30, 1966 and June 30, 1967 (February 13, 1968), 1 p., 1 statement

Review of Assembly duplicating cost accounting records (March 5, 1968), 2 pp., attachment 3 pp.

Review of the accounting records and procedures of the Assembly fiscal office and the legislative accounting office (March 11, 1968), 18 pp.

Review of cost of Assembly legislative news letters, two month period ended February 29, 1968 (March 20, 1968), 6 pp.

Examination of City of Long Beach Tideland Oil Revenues and Expenditures, Year Ended June 30, 1967 (June 14. 1968), 19 pp. 1 statement

1967 State Park Concession Contracts (June 19, 1968), 3 pp., attachment 1 p.

Review of AB 93, 1968 Session, and the Governor's veto (July 11, 1968), 4 pp.

Examination of Assembly Contingent Fund, Year Ended June 30, 1968 (November 22, 1968), 1 p., 1 statement

Review of Assembly duplicating department's news letter production costs (November 26, 1968), 2 pp.

Review of state printing costs and services pursuant to HR 240, 1968 Session (January 10, 1969), 19 pp.

JUDICIAL

Examination of General Fund accounts of the District Court of Appeal, Fourth Appellate District, Year Ended June 30, 1965 (February 7, 1966), 1 p.

Digest of Legislative Analyst's Report on financial status of the Judges' Retirement Fund (April 12, 1966), 2 pp., attachment 4 pp.

GENERAL ADMINISTRATION

State Employees' Retirement System

Examination of Old Age and Survivors' Insurance Revolving Fund, Year Ended June 30, 1965 (May 11, 1966), 5 pp., 1 statement

Examination of State Employees' Contingency Reserve Fund, Year Ended June 30, 1965 (May 17, 1966), 5 pp., 2 statements

Examination of State Employees' Retirement Fund, Year Ended June 30, 1965 (August 3, 1966), 22 pp., 3 statements

Department of General Services

Examination of Public Building Construction Fund, Year Ended June 30, 1964 (March 25, 1965), 7 pp., 2 statements

Examination of General Fund accounts of the Department of General Services, Year Ended June 30, 1964 (April 5, 1965), 7 pp.

Department of General Services' building maintenance and protection costs for year ended June 30, 1964 (April 19, 1965), 2 pp.

Examination of Service Revolving Fund, Year Ended June 30, 1964 (June 15, 1965), 6 pp., 2 statements

Review of Property Acquisition and Leasing Procedures, Department of General Services (November 1, 1965), 16 pp.

Review of progress report of Department of General Services (February 15, 1966), 1 p., attachment 2 pp.

Examination of the Architecture Public Building Fund, Year Ended June 30, 1966 (February 10, 1967), 2 pp., 2 statements

Examination of Architecture Revolving Fund, Year Ended June 30, 1966 (May 9, 1967), 7 pp., 2 statements

Progress report on examination of California Exposition and Fair Corporation and the California Exposition and Fair Executive Committee (October 23, 1968), 14 pp.

Review of state leasing operations in the Department of General Services (December 10, 1968), 16 pp.

Review of state building maintenance and operation programs in the Department of General Services (December 31, 1968), 11 pp.

Personnel Board

Examination of General Fund accounts of the State Personnel Board, Year Ended June 30, 1964 (March 4, 1965), 1 p.

Secretary of State

Examination of Ballot Paper Revolving Fund, Year Ended June 30, 1964 (February 2, 1965), 2 pp., 2 statements

Examination of General Fund accounts of the Secretary of State, Year Ended June 30, 1964 (February 17, 1965), 1 p.

AGRICULTURE

Examination of Fair and Exposition Fund, Year Ended June 30, 1964 (February 10, 1965), 4 pp., 3 statements

Examination of California Museum of Science and Industry Fund, Year Ended June 30, 1964 (March 26, 1965), 6 pp., 2 statements

Review of California Museum of Science and Industry history and organization and its contractual relationship with the City and County of Los Angeles and Los Angeles Memorial Coliseum Commission (August 24, 1965), 2 pp.

Examination of Agriculture Building Fund, Year Ended June 30, 1965 (December 30, 1965), 3 pp., 2 statements

Examination of Department of Agriculture Fund, Year Ended June 30, 1965 (February 8, 1966), 2 pp., 4 statements

Examination of General Fund accounts of the Department of Agriculture, Year Ended June 30, 1965 (June 16, 1966), 6 pp.

Review of First District Agricultural Association (August 19, 1966), 4 pp., 1 statement

CORRECTIONS

Department of Corrections

Examination of Correctional Industries Revolving Fund — Central Office, Year Ended December 31, 1965 (December 29, 1966, 3 pp., 2 statements

Review of operations of correctional industries as part of Assembly Ways and Means Committee study of criminal justice (December 10, 1968), 10 pp.

Penal Institutions

Examination of General Fund accounts of the California Men's Colony—East Facility, Year Ended June 30, 1964 (February 9, 1965), 2 pp.

Examination of General Fund accounts of the California Men's Colony—West Facility, Year Ended June 30, 1964 (February 23, 1965), 4 pp.

Examination of General Fund accounts of the State Prison at Folsom, Year Ended June 30, 1964 (March 3, 1965), 2 pp.

Examination of General Fund accounts of the Rehabilitation Center, Year Ended June 30, 1964 (March 12, 1965), 1 p.

Examination of General Fund accounts of the San Quentin State Prison, Year Ended June 30, 1965 (September 6, 1966), 4 pp.

Examination of General Funds of the California Medical Facility, Year Ended June 30, 1965 (September 6, 1966), 3 pp.

Examination of Correctional Industries Revolving Fund, California Institution for Women, Frontera, Year Ended December 31, 1965 (December 14, 1966), 2 pp.

e Secretary of State, Year
1 p.

Year Ended June 30, 1964

ence and Industry Fund,
65), 6 pp., 2 statements
and Industry history and
ship with the City and
Memorial Coliseum Com-

d, Year Ended June 30,
ents
Fund, Year Ended June
ents
the Department of Agri-
16, 1966), 6 pp.
iation (August 19, 1966),

evolving Fund — Central
December 29, 1966, 3 pp.,

ries as part of Assembly
iminal justice (December

of the California Men's
e 30, 1964 (February 9,

of the California Men's
30, 1964 (February 23,

e State Prison at Folsom,
), 2 pp.
he Rehabilitation Center,
), 1 p.
the San Quentin State
ber 6, 1966), 4 pp.
ifornia Medical Facility,
966), 3 pp.
volving Fund, California
Ended December 31, 1965

Examination of Correctional Industries Revolving Fund, Folsom State Prison, Year Ended December 31, 1965 (December 14, 1966), 5 pp.

Examination of Correctional Industries Revolving Fund, Deuel Vocational Institution, Year Ended December 31, 1965 (December 14, 1966), 3 pp.

Examination of General Fund accounts of the Correctional Training Facility, Soledad, Year Ended June 30, 1966 (April 26, 1967), 3 pp.

Examination of General Fund accounts of the Department of the Youth Authority—Departmental Administration, Year Ended June 30, 1964 (March 3, 1965), 1 p.

Correctional Schools

Examination of General Fund accounts of the Preston School of Industry, Year Ended June 30, 1964 (March 9, 1965), 1 p.

Examination of General Fund accounts of the Youth Authority Conservation Camps for Boys and the Northern California Reception Center and Clinic, Year Ended June 30, 1964 (March 10, 1965), 1 p.

Examination of General Fund accounts of the Ventura School for Girls, Year Ended June 30, 1964 (March 18, 1965), 1 p.

EDUCATION AND STATE TEACHERS' RETIREMENT SYSTEM

Department of Education

Examination of State School Fund, Year Ended June 30, 1964 (June 30, 1964 (June 21, 1965), 11 pp., 2 statements

Examination of School District Organization Service Fund, Year Ended June 30, 1965 (May 11, 1966), 3 pp., 2 statements

Examination of State School Fund, Year Ended June 30, 1965 (May 18, 1966), 13 pp., 2 statements

Errors in computing apportionments, State School Fund (July 15, 1966), 2 pp.

Effect of Section 8111 of the Education Code of the provisions in SB 58, 1967 Session (February 10, 1967), 3 pp.

Examination of State School Fund, Year Ended June 30, 1966 (February 21, 1967), 14 pp., 2 statements

Examination of Vocational Education Federal Fund, Year Ended June 30, 1966 (August 2, 1967), 2 pp., 1 statement

Examination of General Fund accounts of the Department of Education, Year Ended June 30, 1966 (August 2, 1967), 3 pp.

Examination of Department of Education—Trust Funds, Year Ended June 30, 1966 (August 2, 1967), 1 p., 2 statements

Examination of Surplus Educational Property Revolving Fund, Year Ended June 30, 1966 (August 2, 1967), 3 pp., 2 statements

Examination of derivation of State School Fund apportionments and transfer from the General Fund for the Year Ended June 30, 1967 (March 4, 1968), 2 pp.

Need for a management survey of State Teachers' Retirement System in view of proposed conversion to EDP (February 25, 1966), 2 pp.

Funding of State Teachers' Retirement System (March 27, 1967), 4 pp.

HIGHER EDUCATION

State Colleges

Examination of College Auxiliary Enterprise Fund, Year Ended June 30, 1964 (February 11, 1965), 3 pp., 2 statements

Review of operations of South Bay State College from its inception in 1961 through June 30, 1965 (August 3, 1965), 5 pp., attachment 3 pp.

Examination of General Fund accounts of the San Fernando Valley State College, Year Ended June 30, 1965 (October 20, 1965), 3 pp.

Examination of General Fund accounts of the San Francisco State College, Year Ended June 30, 1965 (November 3, 1965), 3 pp.

Examination of General Fund accounts of the Sonoma State College, Year Ended June 30, 1965 (November 3, 1965), 2 pp.

Administration of salary increase fund by Board of Trustees of the California State Colleges (December 15, 1965), 2 pp.

Examination of General Fund accounts of the Humboldt State College, Year Ended June 30, 1966 (December 13, 1966), 3 pp.

Review of operations of Dominguez Hills State College (March 1, 1967), 6 pp.

Examination of General Fund accounts of the Los Angeles State College, Year Ended June 30, 1966 (April 26, 1967), 3 pp.

Study of State College Auxiliary Organizations at Fullerton and Sacramento State Colleges (June 6, 1968), 3 pp.

Responses to questions regarding the State College Chancellor's office (June 10, 1968), 3 pp.

Financing and management of State College Auxiliary Organizations at Fullerton and Sacramento State Colleges (July 9, 1968), 16 pp.

Maritime Academy

Examination of General Fund accounts and trust accounts of the California Maritime Academy, Year Ended June 30, 1965 (December 21, 1965), 2 pp.

State Scholarship and Loan Commission

Examination of General Fund accounts of the State Scholarship Commission, Year Ended June 30, 1966 (December 13, 1966), 1 p.

FISCAL AFFAIRS

State Controller

Examination of Unclaimed Property Fund, Year Ended June 30, 1964 (January 22, 1965), 4 pp., 2 statements

Examination of General Debt Service Funds, Year Ended June 30, 1964 (February 19, 1965), 2 pp., 2 statements

Examination of School Land Fund, Year Ended June 30, 1964 (March 3, 1965), 8 pp., 2 statements

Examination of Public School Building Loan Fund, State School Building Aid Fund, State Construction Program Fund, Year Ended June 30, 1964 (March 25, 1965), 3 pp., 2 statements

Examination of Special Deposit Fund, Year Ended June 30, 1964 (June 10, 1965), 3 pp., 2 statements

Examination of General Fund, Year Ended June 30, 1965 (December 30, 1965), 1 p., 4 statements

Examination of Tax Deeded Land Rental Trust Fund, Year Ended June 30, 1965 (May 11, 1966), 2 pp., 1 statement

Overstatement caused by Department of Motor Vehicles—Special Deposit Fund (May 17, 1966), 1 p.

Summary of findings re Special Deposit Fund (May 17, 1966), 2 pp.

Examination of Special Deposit Fund, Year Ended June 30, 1965 (May 17, 1966), 3 pp., 3 statements

Payroll transactions in State Colleges (May 17, 1966), 4 pp., 8 statements

Examination of School Land Fund, Year Ended June 30, 1965 (June 6, 1966), 4 pp., 2 statements

Examination of State Construction Program Fund, Year Ended June 30, 1965 (June 30, 1966), 3 pp., 3 statements

Examination of Public School Building Loan Fund, State School Building Aid Fund, Year Ended June 30, 1965 (June 30, 1966), 7 pp., 2 statements

Examination of Inheritance Tax Fund and Gift Tax Fund, Year Ended June 30, 1966 (December 13, 1966), 5 pp., 2 statements

Examination of General Fund, Year Ended June 30, 1966 (December 30, 1966), 2 pp., 4 statements

Review of administration of Inheritance Tax and Gift Tax Funds (January 20 1967), 3 pp., attachment 9 pp.

Review of accounts receivable, General Fund (June 20, 1967), 7 pp.

Examination of California Water Fund, Year Ended June 30, 1966 (July 12, 1967), 13 pp., 2 statements

Examination of General Fund, Year Ended June 30, 1967 (January 29, 1968), 3 pp., 6 statements

Examination of Public School Building Loan Fund, State School Building Aid Fund, Year Ended June 30, 1967 (February 23, 1968), 5 pp., 2 statements

Review of State Controller's report on Department of Finance (June 14, 1968), 6 pp.

Review of Payroll disbursements (December 31, 1968), 7 pp.

Examination of General Fund, Year Ended June 30 1968 (December 31, 1968), 4 pp., 6 statements

Board of Equalization

Examination of General Fund accounts of the Retail Sales Tax Fund, Cigarette Tax Fund, Alcohol Beverage Control Fund, Year Ended June 30, 1965 (December 21, 1965), 1 p.

Examination of Motor Vehicle Fuel Fund, Year Ended June 30, 1965 (March 31, 1966), 4 pp., 3 statements

Revenues of Board of Equalization, Year Ended June 30, 1966 (June 21, 1967), 3 pp.

Examination of Motor Vehicle Transportation Tax Fund, Year Ended June 30, 1966 (April 1, 1968), 4 pp., 2 statements

Examination of Motor Vehicle Fuel Fund, Year Ended June 30, 1966 (April 2, 1968), 5 pp., 2 statements

Department of Finance

Overstaffing in Audits Division of the Department of Finance (May 11, 1965), 3 pp., attachment 4 pp.

Examination of General Fund, State Construction Program Fund, Special Deposit Fund of the Department of Finance, Year Ended June 30, 1965 (March 30, 1966) 3 pp.

Examination of General Fund accounts of the State Lands Division, Year Ended June 30, 1966 (December 14, 1966), 4 pp.

Franchise Tax Board

Test of revenues collected, Year Ended June 30, 1965 (February 23, 1966), 1 p.

Examination of General Fund accounts of the Franchise Tax Board, Year Ended June 30, 1966 (May 1, 1967), 1 p.

Examination of Bank and Corporation Tax Fund and Personal Income Tax Fund, Year Ended June 30, 1966 (May 3, 1967), 15 pp., 3 statements

Tax revenues collected by the Franchise Tax Board (December 31, 1968), 1 p.

State Treasurer

Examination of Pooled Money Investment Board including Pooled Money Investment Accounts, Surplus Money Investment Fund, Condemnation Deposits Fund, Year Ended June 30, 1964 (January 26, 1965), 4 pp., 2 statements

HEALTH AND WELFARE

Department of Health Care Services

Examination of Health Care Deposit Fund, Four Months Ended June 30, 1966 (February 21, 1967), 14 pp., 2 statements

Health Care Deposit Fund cash transactions, March 1, 1966 to December 31, 1967 (January 15, 1968), 2 pp., 24 statements

Financial statements of the Health Care Deposit Fund, 16 months ended June 30, 1967 (February 8, 1968), 2 pp., 7 statements

Examination of Health Care Deposit Fund, Year Ended June 30, 1967 (February 23, 1968), 14 pp., 4 statements

Department of Human Resources Development

Review of farm labor service costs of the Department of Employment (per request of ACR 37, 1965 Legislature) (Aug. 31, 1965), 2 pp., attachment 6 pp.

Examination of Department of Employment, Year Ended June 30, 1967 (February 16, 1968), 20 pp., 4 statements

Department of Mental Hygiene

Examination of General Accounts of the Department of Mental Hygiene including Outpatient Mental Hygiene Clinics and Day Treatment Centers, Year Ended June 30, 1964 (February 11, 1965), 2 pp.

Examination of guardianship accounts, Department of Mental Hygiene, Year Ended June 30, 1967 (January 9, 1968), 8 pp., 3 statements

Examination of Departmental Administration, Department of Mental Hygiene, Year Ended June 30, 1967 (May 15, 1968), 30 pp.

Hospitals for Mentally Ill

Examination of General Fund accounts of the Modesto State Hospital, Year Ended June 30, 1964 (February 15, 1965), 2 pp.

Examination of General Fund accounts of the Metropolitan State Hospital, Year Ended June 30, 1964 (February 15, 1965), 2 pp.

Examination of General Fund accounts of the Patton State Hospital, Year Ended June 30, 1965 (February 7, 1966), 2 pp.

Examination of Patients' Trust Accounts of the Patton State Hospital, Year Ended June 30, 1965 (February 7, 1966), 2 pp., 1 statement

Examination of General Fund accounts of the Napa State Hospital, Year Ended June 30, 1965 (February 7, 1966), 6 pp.

Examination of Patients' Trust Accounts of the Napa State Hospital, Year Ended June 30, 1965 (February 7, 1966), 3 pp., 1 statement

Examination of General Fund accounts of the Neuropsychiatric Institute—UCLA, Year Ended June 30, 1965 (March 9, 1966), 4 pp.

Examination of General Fund accounts of the Stockton State Hospital, Year Ended June 30, 1965 (April 13, 1966), 3 pp.

Examination of Patients' Trust Accounts of the Stockton State Hospital, Year Ended June 30, 1965 (April 26, 1966), 5 pp., 1 statement

Examination of General Fund accounts of DeWitt State Hospital, Year Ended June 30, 1967 (January 8, 1968), 2 pp.

Review of Programs and Operations, Mendocino State Hospital, July 1968 (October 1, 1968), 21 pp.

Review of Programs and Operations, Patton State Hospital, August 1968 (December 31, 1968), 22 pp.

Hospitals for Mentally Retarded

Examination of General Fund accounts of the Fairview State Hospital, Year Ended June 30, 1965 (February 7, 1966), 3 pp.

Examination of Patients' Trust Accounts of the Fairview State Hospital, Year Ended June 30, 1965 (February 7, 1966), 3 pp., 1 statement

Department of Public Health

Review of travel expenses of Division of Alcoholic Rehabilitation, 1962–63 and 1963–64 (April 12, 1965), 2 pp., attachment 3 pp.

Examination of General Fund accounts of the Department of Public Health, Year Ended June 30, 1966 (February 6, 1967), 4 pp.

Examination of Public Health Federal Fund, Year Ended June 30, 1966 (February 8, 1967), 3 pp., 2 statements

Department of Rehabilitation

Examination of General Fund accounts of the Orientation Center for the Blind, Year Ended June 30, 1965 (May 11, 1966), 3 pp.

Examination of California Industries for the Blind, Manufacturing Fund, Year Ended June 30, 1965 (August 29, 1966), 6 pp., 3 statements

Examination of Vocational Rehabilitation Federal Fund, Year Ended June 30, 1966 (March 17, 1967), 4 pp., 2 statements

Examination of General Fund accounts of the Department of Rehabilitation, Year Ended June 30, 1966 (March 21, 1967), 7 pp.

Department of Social Welfare

Review of excess in receipt in Social Welfare Federal Fund from the federal government over transfers to the General Fund (April 30, 1965), 2 pp.

Examination of General Fund accounts of the Department of Social Welfare, Year Ended June 30, 1964 (July 1, 1965), 3 pp.

Examination of Revolving Loan Fund, Year Ended June 30, 1965 (May 11, 1966). 2 pp., 1 statement

Examination of General Fund accounts of the Department of Social Welfare, Year Ended June 30, 1965 (May 17, 1966), 2 pp.

Review of expenditures of federal, state, and local governmental funds for public assistance in California (September 29, 1966), 2 pp., 1 statement

Review of expenditures to governmental funds for Public Assistance—allocation of general governmental costs October 14, 1966), 2 pp.

Examination of Revolving Loan Fund, Year Ended June 30, 1966 (March 3, 1967), 3 pp., 1 statement

Examination of General Fund accounts of the Department of Social Welfare, Year Ended June 30, 1966 (March 15, 1967), 3 pp.

Examination of Indemnity Fund, Year Ended June 30, 1966 (March 16, 1967), 3 pp., 1 statement

Examination of Social Welfare Federal Fund, Year Ended June 30, 1966 (March 20, 1967), 8 pp., 2 statements

INDUSTRIAL RELATIONS

Department of Industrial Relations

Examination of General Fund accounts of the Department of Industrial Relations, Year Ended June 30, 1965 (January 17, 1966), 5 pp.

Workmen's Compen
Examination of State
cember 31, 1967 (J
Review of procedures
Compensation Insu
REGULATION AND
Department of Alcol
Examination of the
30, 1965 (October
Examination of the
coholic Beverage
peals Board, Year
Department of Corp
Examination of Gene
Year Ended June
Examination of Gen
tions, Year Ended
Districts Securities C
Examination of Gen
tricts Securities C
6, 1967), 1 p.
Department of Insu
Examination of Ins
(March 19, 1965),
Review of personnel
surance (Novembe
Examination of Insu
vember 22, 1965),
Review summary of
Department of Ins
Examination of
1965 (May 10, 196
Examination of Insu
ruary 28, 1968), 7
Department of Prof
Examination of Spe
tional Standards,
pp., 3 statements
Examination of Pro
1964 (March 26, 1
Public Utilities Com
Examination of Gen
sion, Year Ended
Examination of Tra
(March 15, 1966)

Workmen's Compensation Insurance

Examination of State Compensation Insurance Fund, Year Ended December 31, 1967 (June 17, 1968), 2 pp., 4 statements

Review of procedures, internal control, and accounting records, State Compensation Insurance Fund (June 17, 1968), 6 pp.

REGULATION AND LICENSING

Department of Alcoholic Beverage Control

Examination of the Alcohol Beverage Control Fund, Year Ended June 30, 1965 (October 27, 1965), 2 pp., 2 statements

Examination of the General Fund accounts of the Department of Alcoholic Beverage Control and the Alcoholic Beverage Control Appeals Board, Year Ended June 30, 1965 (October 27, 1965), 1 p.

Department of Corporations

Examination of General Fund accounts of the Division of Corporations, Year Ended June 30, 1964 (March 3, 1965), 1 p.

Examination of General Fund accounts of the Division of Corporations, Year Ended June 30, 1966 (March 21, 1967), 2 pp.

Districts Securities Commission

Examination of General Fund and Trust Fund accounts of the Districts Securities Commission, Year Ended June 30, 1966 (February 6, 1967), 1 p.

Department of Insurance

Examination of Insurance Tax Fund, Year Ended June 30, 1964 (March 19, 1965), 4 pp., 2 statements

Review of personnel files of insurance examiners, Department of Insurance (November 9, 1965), 2 pp.

Examination of Insurance Tax Fund, Year Ended June 30, 1965 (November 22, 1965), 3 pp., 2 statements

Review summary of education and experience of insurance examiners, Department of Insurance (March 4, 1966), 1 p., attachment 6 pp.

Examination of Department of Insurance, Year Ended June 30, 1965 (May 10, 1966), 4 pp., 2 statements

Examination of Insurance Tax Fund, Year Ended June 30, 1967 (February 28, 1968), 7 pp., 1 statement

Department of Professional and Vocational Standards

Examination of Special Funds, Department of Professional and Vocational Standards, Year Ended June 30, 1964 (March 26, 1965), 4 pp., 3 statements

Examination of Professions and Vocations Fund, Year Ended June 30, 1964 (March 26, 1965), 6 pp., 2 statements

Public Utilities Commission

Examination of General Fund accounts of the Public Utilities Commission, Year Ended June 30, 1965 (March 14, 1966), 1 p.

Examination of Transportation Rate Fund, Year Ended June 30, 1965 (March 15, 1966), 4 pp., 2 statements

Department of Real Estate

Examination of Division of Real Estate, Year Ended June 30, 1967 (February 27, 1968), 9 pp., 2 statements

Department of Savings and Loan

Examination of Savings and Loan Inspection Fund, Year Ended June 30, 1965 (May 5, 1966), 3 pp., 2 statements

RESOURCES

Department of Conservation

Examination of Subsidence Abatement Fund, Year Ended June 30, 1964 (February 17, 1965), 2 pp., 2 statements

Examination of Soil Conservation Development Fund, Year Ended June 30, 1964 (February 17, 1965), 3 pp., 2 statements

Examination of Petroleum and Gas Fund, Year Ended June 30, 1964 (February 16, 1965), 2 pp., 2 statements

Department of Harbors and Watercraft

Review of construction loan to City of Avalon (October 13, 1967), 3 pp.

Review of financial condition of Harbors and Watercraft Revolving Fund (March 12, 1968), 4 pp., 6 statements

Review of loans made to City of Avalon for harbor improvements (August 14, 1968), 7 pp., 1 statement

Review of Small Craft Harbor loans to City of Avalon, December 1968 (December 31, 1968), 13 pp., appendix 12 pp.

Department of Parks and Recreation

Examination of State Park Contingent Fund, Year Ended June 30, 1964 (February 17, 1965), 3 pp., 2 statements

Review of Development and Operations of Columbia State Historic Park, October 1968 (October 9, 1968), 29 pp.

Department of Water Resources

Review cost of employee housing at Oroville (June 17, 1965), 2 pp.

Survey of the Accounting Function of the Department of Water Resources, 1965 (August 11, 1965), 15 pp.

Examination of Water Resources Revolving Fund, Year Ended June 30, 1964 (December 30, 1965), 26 pp., 2 statements

Examination of California Water Fund accounts, Year Ended June 30, 1965 (November 16, 1966), 3 pp.

Examination of General Fund accounts of the Department of Water Resources, Year Ended June 30, 1965 (November 16, 1966), 4 pp.

Examination of Water Resources Revolving Fund, Year Ended June 30, 1965 (December 13, 1966), 39 pp., 2 statements

Followup on System Study in the Department of Water Resources (December 30, 1966), 9 pp.

Examination of State Water Resources Development System, Year Ended June 30, 1965 (February 8, 1967), 17 pp., 12 statements

Supplemental report on State Water Resources Development System (February 8, 1967), 6 pp.

Accounting system of Department of Water Resources (December 29, 1967), 11 pp.

Examination of General Fund accounts of the Department of Water Resources, Year Ended June 30, 1967 (March 5, 1968), 2 pp.

Review of program administration, Davis-Grunsky Local Projects Assistance Program, June 30, 1967 (March 6, 1968), 6 pp., 4 statements

Review of administration, Thermalito Power Canal Construction Contract Change Order No. 22, 1968 (December 12, 1968), 39 pp., appendix 21 pp.

State Water Resources Control Board

Examination of State Water Pollution Control Fund, Year Ended June 30, 1964 (February 17, 1965), 3 pp., 3 statements

Review of General Fund accounts of the State Water Quality Control Board, Year Ended June 30, 1967 (January 8, 1968), 1 p.

Klamath River Compact Commission

Financial Statements for period from July 1, 1961 to June 30, 1965 (September 26, 1966), 2 pp., 2 statements

California-Nevada Interstate Compact Commission

Examination of General Fund accounts, Year Ended June 30, 1965 (September 26, 1966), 2 pp.

TRANSPORTATION

Department of Aeronautics

Examination of Aeronautics Fund, Year Ended June 30, 1966 (April 1, 1968), 3 pp., 1 statement

Examination of Airport Assistance Revolving Fund, Year Ended June 30, 1966 (April 1, 1968), 3 pp., 1 statement

Business and Transportation

Suggestions for improvements in audit procedures and working paper techniques of audits of the district offices of the Division of Highways (Pilot Study) (January 18, 1966), 5 pp.

Review of internal audit work in addition to district office audits (Pilot Study) (January 19, 1966), 3 pp.

Evaluation of pilot internal audit (April 25, 1967), 6 pp.

Department of the California Highway Patrol

Report on Survey of Operations, December 1968 (December 31, 1968), 143 pp.

Department of Motor Vehicles

Examination of Motor Vehicle Fund, Year Ended June 30, 1966 (April 15, 1968), 2 pp., 2 statements

Examination of Motor Vehicle License Fee Fund, Year Ended June 30, 1966 (April 15, 1968), 2 pp., 2 statements

Department of Public Works
Division of Highways

Recovery from federal government of engineering costs (March 2, 1965), 3 pp.

Breakdown of control over accounts receivable at district 7 and under payments to County of Los Angeles—State Highway Fund (March 19, 1965), 2 pp. and (June 7, 1965), 1 p.

Limitation of expenditure for general administration and maintenance, Section 186 of the Streets and Highways Code (December 29, 1965), 9 pp.

Accounts Receivable and Related Accounting Activities (April 25, 1966), 40 pp.

Review of Inventories (June 2, 1966), 18 pp.

Review of rent revenue and underpayment to Los Angeles County (August 5, 1966), 2 pp.

Personal Services Transactions in connection with an Examination of the State Highway Fund, Year Ended June 30, 1966 (August 23, 1966), 20 pp.

Review of district 7 embezzlement in right-of-way property rental operations (September 6, 1966), 2 pp.

Response to the Division of Highways' Analysis of the Auditor General's Report on Review of Accounts Receivable and Related Accounting Activities (September 8, 1966), 13 pp.

Review of losses to the State resulting from deficient procedures in claiming federal reimbursements under interstate highway program (September 20, 1966), 3 pp.

Proposed change in Contract Standard Specifications to permit recovery of overpayments (November 2, 1966), 3 pp.

Write off of accounts receivable and recovery of design costs (December 29, 1966), 2 pp.

Proposed change in contract standard specifications to permit recovery of overpayments (January 20, 1967), 2 pp.

Personal Services Transactions—State Highway Fund, Supplement (January 24, 1967), 11 pp.

Review of effects of adoption of current billing method—State Highway Fund (April 25, 1967), 6 pp.

Review of liquidated damages and bonus provisions of highway construction contracts (June 27, 1967), 5 pp., appendix 3 pp.

Review of losses resulting from delay in implementing current billing method (August 18, 1967), 3 pp., attachment 2 pp.

Right-of-way acquisition—Whitnal Freeway (October 4, 1967), 2 pp.

Progress report on study of excess land acquisitions (November 13, 1967), 4 pp.

Review of prequalification of contractors (February 13, 1968), 4 pp., attachment 2 pp.

Examination of Street and Highway Disaster Fund, Year Ended June 30, 1966 (April 1, 1968), 6 pp., 2 statements

Examination of Highway Users Tax Fund, Year Ended June 30, 1966 (April 2, 1968), 2 pp., 1 statement

Examination of State Highway Fund, Year Ended June 30, 1966 (April 3, 1968), 138 pp., 16 statements

Examination of Highway Properties Rental Fund, Year Ended June 30, 1966 (April 16, 1968), 3 pp., 1 statement

Examination of Highway Right of Way Acquisition Fund, Year Ended June 30, 1966 (May 6, 1968), 4 pp., 1 statement

Review of excess lands (July 18, 1968), 21 pp.

Review of funds used to account for highway users taxes, October 1968 (October 17, 1968), 19 pp.

Review of reply to Assembly Committee on Transportation and Commerce from Department of Public Works on report on the review of funds used to account for highway users taxes, October 1968 (December 17, 1968), 8 pp.

Limitation of expenditures for general administration and maintenance, Section 186 of the Streets and Highways Code (December 31, 1968), 3 pp.

Status of the implementation of recommendations made in report on State Highway Fund, Year Ended June 30, 1966 (December 31, 1968), 2 pp.

Bay Toll Crossings

Examination of San Francisco Bay Bridges, Year Ended June 30, 1967 (December 31, 1968), 1 p., 8 statements

Examination of Richmond-San Rafael Bridge, Year Ended June 30, 1967 (December 31, 1968), 1 p., 5 statements

Examination of Carquinez Strait Bridges, Year Ended June 30, 1967 (December 31, 1968), 1 p., 7 statements

Examination of Vincent Thomas Bridge, Year Ended June 30, 1967 (December 31, 1968), 1 p., 7 statements

VETERANS AFFAIRS

Examination of General Fund accounts of Veterans' Home of California, Year Ended June 30, 1965 (October 13, 1965), 2 pp.

Examination of Veterans' Home of California, Post Fund, Year Ended June 30, 1965 (October 14, 1965), 5 pp., 5 statements

Examination of Trust Fund accounts of Veterans' Home of California, Year Ended June 30, 1965 (October 14, 1965), 2 pp.

MISCELLANEOUS

Reimbursable Work Performed by Certain State Agencies for Other Governmental Bodies, 1964 (June 28, 1965), 15 pp.

Summary of Reports Issued by the Office of the Auditor General, November 1, 1964 to September 30, 1966 (November 15, 1966), 61 pp.

TEXT OF STATUTE PERTAINING TO THE JOINT LEGISLATIVE AUDIT COMMITTEE AND THE AUDITOR GENERAL

Article 1. Joint Legislative Audit Committee

10500. The Legislature finds that auditing is now conducted by various state agencies and recognizes the needs of the executive branch of the State Government for periodic and special auits of the revenues and expenditures of any state agency, and the accounting and fiscal reporting systems established in state agencies, as a means of insuring the proper and lawful expenditure of state funds. The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of State Government, for the use of both the executive and legislative branches of the State Government in establishing a sound fiscal and administrative policy for the government of the State.

Therefore, it is the desire of this Legislature that the internal auditing be coordinated in the executive branch of the government in the interest of economy and efficiency. It is also the desire of the Legislature to create the Office of the Auditor General, whose primary duties shall be to examine and report annually upon the financial statements prepared by the executive branch of the State and to perform such other related assignments as may be requested by the Legislature. The authority of the office under the direction of the Joint Legislative Audit Comittee is confined to examining and reporting and is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government.

10501. The Joint Legislative Audit Committee is hereby created. The committee shall determine the policies of the Auditor General, ascertain facts, review reports and take action thereon, and make reports and recommendations to the Legislature and to the houses thereof concerning the state audit, the revenues and expenditures of the State, its departments, subdivisions, and agencies, whether created by the Constitution or otherwise, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act, and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

10502. The committee shall consist of three Members of the Senate and three Members of the Assembly who shall be selected in the manner provided for in the Joint Rules of the Senate and Assembly. The committee shall elect its own chairman. Vacancies occurring in the membership of the committee between general sessions of the Legislature shall be filled in the manner provided for in the Joint Rules of the Senate and Assembly. A vacancy shall be deemed to exist as to

Appendix B

G TO THE
MITTEE AND
AL

tee

ıg is now conducted by s of the executive branch pecial auits of the reve- and the accounting and e agencies, as a means ure of state funds. The an independent audit, in xecutive branch of State and legislative branches ınd fiscal and administra-

ure that the internal au- h of the government in so the desire of the Legis- General, whose primary ually upon the financial of the State and to per- e requested by the Legis- e direction of the Joint nining and reporting and nal audit to be conducted

mittee is hereby created. of the Auditor General, on thereon, and make re- and to the houses thereof expenditures of the State, ether created by the Con- as may be provided for in The committee has a con- nduct its business at any of the Legislature or any en sessions.

ee Members of the Senate ll be selected in the man- enate and Assembly. The cancies occurring in the al sessions of the Legisla- for in the Joint Rules of be deemed to exist as to

any member of the committee whose term is expiring whenever such member is not reelected at the general election.

10503. The committee is authorized to make rules governing its own proceedings and to create subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold. The provisions of Rule 36 of the Joint Rules of the Senate and Assembly relating to investigating committees shall apply to the committee and it shall have such powers, duties and responsibilities as the Joint Rules of the Senate and Assembly shall from time to time prescribe, and all the powers conferred upon committees by Section 37, Article IV, of the Constitution.

10504. The committee shall have authority to appoint an Auditor General and a deputy who shall serve at the pleasure of the committee. The committee shall fix the salary of the Auditor General. The funds for the support of the committee shall be provided from the Contingent Funds of the Senate and the Assembly in the same manner that such funds are made available to other joint committees of the Legislature.

Article 2. Auditor General

10520. There is in the State Government the Legislative Audit Bureau. The bureau is in charge of the Auditor General.

10521. The Auditor General, prior to his appointment, shall possess the following minimum qualifications:

(a) He shall be in possession of a valid certificate issued by the State Board of Accountancy to practice as a certified public accountant or a public accountant.

(b) He shall have had at least seven years of experience in governmental accounting in an executive position involving responsibility for directing the work of an auditing staff of not less than 20 accountants.

(c) Or he shall have any combination of experience which in the opinion of the committee is the equivalent of (b).

10522. The Auditor General shall be paid the salary fixed by the Joint Legislative Audit Committee and shall be repaid all actual expenses incurred or paid by him in the discharge of his duties.

10523. The Auditor General may employ and fix the compensation, in accordance with Article XXIV of the Constitution, of such professional assistants and clerical and other employees as he deems necessary for the effective conduct of the work under his charge.

10524. The permanent office of the Auditor General shall be in Sacramento, where he shall be provided with suitable and sufficient offices. When in his judgment the conduct of his work requires, he may maintain offices at other places in the State.

10525. All books, papers, records, and correspondence of the bureau pertaining to its work are public records and shall be filed at any of the regularly maintained offices of the Auditor General, except:

(a) Papers or memoranda that are of no further use may be destroyed upon approval of the Joint Legislative Audit Committee.

(b) Personal papers and correspondence of any person receiving assistance from the Auditor General when such person has requested in

writing that his papers and correspondence be kept private and confidential. Such papers and correspondence shall become public records whenever the Auditor General or the Legislature shall so order or the written request is withdrawn.

(c) Papers, correspondence or memoranda pertaining to any audit or investigation not completed, when in the judgment of the Auditor General, disclosure of such papers, correspondence, or memoranda will impede such audit or investigation.

(d) Any record, document, or information, the disclosure of which is restricted by law or public policy.

10526. It shall be a misdemeanor for the Auditor General or any employee of the bureau to divulge or make known in any manner not permitted by law, any particulars of any record, document, or information the disclosure of which is restricted by law.

10527. The Auditor General during regular business hours shall have access to, and authority to examine, any and all books, accounts, reports, vouchers, correspondence files, and other records, bank accounts, and money or other property, of any agency of the State whether created by the Constitution or otherwise, and it shall be the duty of any officer or employee of any such agency, having such records or property in his possession or under his control, to permit access to, and examination thereof upon the request of the Auditor General or his authorized representative. Any officer or person who shall fail or refuse to permit such access and examination, shall be guilty of a misdemeanor.

10528. The Auditor General shall examine and report annually upon the financial statements prepared by the executive branch of the State to the end that the Legislature will be informed as to the adequacy of such financial statements in compliance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year. In making such examination, he is authorized to make such audit examination of accounts and records, accounting procedures and internal auditing performance as the Joint Legislative Audit Committee may determine and specifically designate to be necessary to proper reporting to the Legislature in accordance with the statement of purposes set forth in Section 10500. He shall make such special audits and investigations of any state agency whether created by the Constitution or otherwise, as requested by the Legislature or any committee of the Legislature.

GENERALLY ACCEPTED AUDITING STANDARDS

In reports issued by the Office of the Auditor General on examinations of the financial statements of a fund, agency, department, or other unit, reference is made to the examination having been made in accordance with "generally accepted auditing standards". This term is used to mean the broad standards specified by the American Institute of Certified Public Accountants and widely adopted and adhered to by firms of certified public accountants. These standards are as follows:

General Standards:

(1) The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.

(2) In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.

(3) Due professional care is to be exercised in the performance of the examination and the preparation of the report.

Standards of field work:

(1) The work is to be adequately planned and assistants, if any, are to be properly supervised.

(2) There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.

(3) Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

Standards of reporting:

(1) The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.

(2) The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

(3) Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

(4) The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

Appendix D

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The recommended accounting principles and procedures are as follows:

Legal Compliance and Financial Operations:

(1) A governmental accounting system must make it possible: (a) to show that all applicable legal provisions have been complied with; and (b) to determine fairly and with full disclosure the financial position and results of financial operations of the constituent funds and self-balancing account groups of the governmental unit.

Conflicts between Accounting Principles and Legal Provisions:

(2) If there is a conflict between legal provisions and generally accepted accounting principles applicable to governmental units, legal provisions must take precedence. Insofar as possible, however, the governmental accounting system should make possible the full disclosure and fair presentation of financial position and operating results in accordance with generally accepted principles of accounting applicable to governmental units.

The Budget and Budgetary Accounting:

(3) An annual budget should be adopted by every governmental unit, whether required by law or not, and the accounting system should provide budgetary control over general governmental revenues and expenditures.

Fund Accounting:

(4) Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Types of Funds:

(5) The following types of funds are recognized and should be used in accounting for governmental financial operations as indicated.

1. The General Fund to account for all financial transactions not properly accounted for in another fund;
2. Special Revenue Funds to account for the proceeds of specific revenue sources (other than special assessments) or to finance specified activities as required by law or administrative regulation;

3. Debt Service Funds to account for the payment of interest and principal on long-term debt other than special assessment and revenue bonds;
4. Capital Projects Funds to account for the receipt and disbursement of moneys used for the acquisition of capital facilities other than those financed by special assessment and enterprise funds;
5. Enterprise Funds to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges by users of such services;
6. Trust and Agency Funds to account for assets held by a governmental unit as trustee or agent for individuals, private organizations, and other governmental units;
7. Intergovernmental Service Funds to account for the financing of special activities and services performed by a designated organization unit within a governmental jurisdiction for other organization units within the same governmental jurisdiction;
8. Special Assessment Funds to account for special assessments levied to finance public improvements or services deemed to benefit the properties against which the assessments are levied.

Number of Funds:

(6) Every governmental unit should establish and maintain those funds required by law and sound financial administration. Since numerous funds make for inflexibility, undue complexity, and unnecessary expense in both the accounting system and the overall financial administration, however, only the minimum number of funds consistent with legal and operating requirements should be established.

Fund Accounts:

(7) A complete self-balancing group of accounts should be established and maintained for each fund. This group should include all general ledger accounts and subsidiary records necessary to reflect compliance with legal provisions and to set forth the financial position and the results of financial operations of the fund. A clear distinction should be made between the accounts relating to current assets and liabilities and those relating to fixed assets and liabilities. With the exception of Intragovernmental Service Funds, Enterprise Funds, and certain Trust Funds, fixed assets should not be accounted for in the same fund with the current assets, but should be set up in a separate self-balancing group of accounts called the General Fixed Asset Group of Accounts. Similarly, except in Special Assessment, Enterprise, and certain Trust Funds, long-term liabilities should not be carried with the current liabilities of any fund, but should be set up in a separate, self-balancing group of accounts known as the General Long-Term Debt Group of Accounts.

Valuation of Fixed Assets:

(8) The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or, in the case of gifts, the appraised value at the time received.

Depreciation:

(9) Depreciation on general fixed assets should not be recorded in the general accounting records. Depreciation charges on such assets may be computed for unit cost purposes, provided such charges are recorded only in memorandum form and do not appear in the fund accounts.

Basis of Accounting:

(10) The accrual basis of accounting is recommended for Enterprise, Trust, Capital Projects, Special Assessment, and Intragovernmental Service Funds. For the General, Special Revenue, and Debt Service Funds, the modified accrual basis of accounting is recommended. The modified accrual basis of accounting is defined as that method of accounting in which expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred and revenues are recorded when received in cash, except for material or available revenues which should be accrued to reflect properly the taxes levied and the revenues earned.

Classification of Accounts:

(11) Governmental Revenues should be classified by fund and source. Expenditures should be classified by fund, function, organization unit, activity, character, and principal classes of objects in accordance with standard recognized classification.

Common Terminology and Classification:

(12) A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.

Financial Reporting:

(13) Financial statements and reports showing the current condition of budgetary and proprietary accounts should be prepared periodically to control financial operations. At the close of each fiscal year, a comprehensive annual financial report covering all funds and financial operations of the governmental unit should be prepared and published.

COMMITTEE

aintained on the basis of
the original cost is not
)praised value at the time

hould not be recorded in
eciation charges on such
purposes, provided such
ındum form and do not

mmended for Enterprise,
sment, and Intragovern-
al, Special Revenue, and
ıal basis of accounting is
s of accounting is defined
expenditures other than
debt are recorded at the
nues are recorded when
available revenues which
the taxes levied and the

ified by fund and source.
und, function, organiza-
ipal classes of objects in
ssification.

ion should be used con-
counts, and the financial

ng the current condition
should be prepared peri-
s. At the close of each
ncial report covering all
overnmental unit should

RULES OF THE JOINT LEGISLATIVE AUDIT COMMITTEE

The committee operates under the following rules which were adopted in accordance with the authority granted in the enabling act:

(1) The officers of this committee are a chairman and vice chairman, and the committee shall appoint an Auditor General who shall act as secretary.

(2) Four members of the committee shall constitute a quorum; provided, however, that such number shall include no less than two members from the Senate and two members from the Assembly.

(3) Any action of the committee shall require an affirmative vote of not less than two of the Senate members and two of the Assembly members of the committee.

(4) The chairman of the committee is authorized to appoint subcommittees, to specify their duties, and to designate the membership of the subcommittees.

(5) The chairman is authorized to fix the time and place of each meeting of the committee and shall give each member reasonable notice of each meeting.

(6) The chairman shall preside at meetings when present, and in his absence the vice chairman shall preside. The vice chairman of this committee shall act as chairman in the case of a vacancy in the office of the chairman, or whenever such authority is delegated by the chairman.

(7) The secretary shall keep a complete record of the meetings of the committee and of action taken by it.

(8) The committee shall reorganize and elect new officers prior to the adjournment of each general session of the Legislature. The officers of the committee shall hold office until their successors are elected and have qualified.

(9) The Legislative Counsel shall be the counsel for the Joint Legislative Audit Committee.

printed in CALIFORNIA OFFICE OF STATE PRINTING
79759—615 12-69 1M